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Daily Report

China

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Daily Report

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General

Foreign Ministry Holds Weekly News Conference

Sovereignty Over Spratlys Reaffirmed

HK2303111295 Hong Kong AFP in English 0958 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (AFP)—China has reaffirmed its sovereignty claim over the disputed Spratly islands where the Philippines said it had destroyed Chinese territorial markers on some of the islets.

The foreign ministry maintained there was no "crisis" in the archipelago and proposed continuing talks to settle differences. "The Wufang (Jackson) reef and Banyun (Half Moon) reef belong to the Chinese territory since ancient times," foreign ministry spokesman Shen Guofeng said. "And the Chinese side has not taken any more action in recent years," he said. "What has been reported is not true."

Shen was referring to reports Thursday [23 March] by Philippines armed forces chief General Arturo Enrile in Manila that several markers and structures put up by China on Philippine-claimed reefs and atolls had been destroyed.

China and the Philippines are the most recent claimants to the Spratlys, believed to be rich in petroleum, to openly contest the islands. Brunei, Malaysia, Taiwan and Vietnam also claim the islands in whole or in part.

Talks between Beijing and Manila in the Chinese capital Wednesday ended with both sides expressing a willingness to settle the dispute through peaceful means, Shen said. "As long as the two sides respect each other and are willing to enter discussions and consultations, the problems can be settled," he said, adding that studies were underway to find ways to cooperate in fishing and scientific research around the islands.

"The Chinese side maintains that there is no crisis in the Nansha (Spratly) islands," Shen said. "As long as peace and tranquillity is maintained there, the countries concerned will enjoy a peaceful and favorable environment and can develop their economic cooperation."

More on Spratlys

OW2303110295 Beijing XINHUA in English 1049 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—The Wufang Reef and Banyue Reef are part of the Nansha [Spratly] Islands in the South China Sea and have always been within the Chinese territory, Foreign Ministry spokesman Shen Guofang said here today.

Shen told a press conference that a Chinese surveying team surveyed the areas in the past, but in recent years the Chinese side has taken no action there.

Colombian Vice President To Visit

OW2303094895 Beijing XINHUA in English 0927 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—At the invitation of Chinese Vice-President Rong Yiren, Colombian Vice President Humberto de la Calle Lombana will pay an official visit to China from April 3rd to 8th.

This was announced here this afternoon by Chinese Foreign Ministry Spokesman Shen Guofang at a weekly press conference here today.

Iran's Velayati To Visit

OW2303095495 Beijing XINHUA in English 0931 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—Iranian Foreign Minister Velayati will pay an official visit to China from March 27 to 29 at the invitation of Chinese Vice-Premier and Foreign Minister Qian Qichen.

Chinese Foreign Ministry Spokesman Shen Guofang made the announcement at a weekly press conference here this afternoon.

Qian To Visit East Europe, Iceland

OW2303095295 Beijing XINHUA in English 0925 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—Chinese Vice-Premier and Foreign Minister Qian Qichen will pay an official visit to Latvia, Slovakia, Moldova, Bulgaria, Yugoslavia and Iceland from March 29 to April 15, Foreign Ministry Spokesman Shen Guofang announced at a weekly press conference here today.

Qian will visit the countries as guest of Latvian Deputy Prime Minister and Foreign Minister Valdis Birkavs, Slovak Foreign Minister Juraj Schenk, Government of the Republic of Moldova, Bulgarian Foreign Minister Georgi Pirinski, Government of the Federal Republic of Yugoslavia, and Foreign Minister Jon Baldvin Hannibalsson of Iceland.

First Sino-ASEAN Talks Announced

OW2303095795 Beijing XINHUA in English 0938 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—The first senior official consultation, or at the vice foreign minister level, between China and ASEAN will be held in Hangzhou in eastern China from April 3rd to 4th as has been agreed by the two sides.

On the occasion, the two sides will exchange views on the Sino-ASEAN relations and other international and other regional issues of shared concern, announced Shen Guofang, Chinese Foreign Ministry Spokesman, at weekly press conference here today.

Taiwan's APEC Attendance 'Incompatible'*OW2303105395 Beijing XINHUA in English 1038
GMT 23 Mar 95*

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—The attendance of Mr. Hsu Li-teh, so-called vice-premier of Taiwan "executive yuan" and director of Taiwan's economic development commission, at the APEC meeting would be definitely incompatible with relevant provisions of the APEC'S concerned memorandum of understanding (MOU) and the "Seattle and Bogor Model", therefore, the Chinese government will not support such a move in any way.

This was pointed out at the weekly press conference here this afternoon by Chinese Foreign Ministry Spokesman Shen Guofang when asked about Chinese attitude towards the expression and intention of having Mr. Hsu Li-teh coming over to Japan to attend the forum since the APEC annual session will be staged in Japan towards the end of this year.

Shen said that the organization of APEC is a very important international organization of economic cooperation, stressing that China is a member to this organization as a sovereign state while Taiwan is in it as a regional economy.

According to relevant MOU concerning this organization as well as the "Seattle and Bogor Model", the Chinese Taipei can only send its officials in charge of economic affairs to the meeting to attend to the ministerial-level meeting or the informal summit meeting of APEC.

Preparations Made for Court Talks*OW2303104595 Beijing XINHUA in English 1033
GMT 23 Mar 95*

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—The Chinese experts are working hard to study the revised draft regulations of the court of final appeal in Hong Kong handed over by the British side in January, a Foreign Ministry spokesman said here today.

Shen Guofang told a weekly press conference that the Chinese side is prepared to hold expert talks with the British side in near future and exchange views on relevant issues. China is not willing to see the British side take unilateral actions on the issue before the two sides reach consensus, Shen said. He noted that the agreement in principle reached between the two sides in 1991 on the final appeal court must be observed and the founding of the court in Hong Kong before 1997 must be in line with relevant regulations of the Basic Law of the Special Administrative Region of Hong Kong. In 1991, the two sides reached an agreement in principle on the establishment of the court before 1997 and agreed to solve the remaining issues through consultations when drafting the regulations of the court.

Although the British side handed over the draft to the Chinese side only in 1994, Shen said, the Chinese side had taken positive response.

Group To Visit Thailand, Malaysia*OW2303090095 Beijing XINHUA in English 0852
GMT 23 Mar 95*

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—A delegation of the Chinese National People's Congress (NPC) led by its Standing Committee Vice-Chairman Ni Zhifu will visit Thailand and Malaysia from March 26 to April 7 as guests of the National Assembly of Thailand and the Parliament of Malaysia.

Chinese Foreign Ministry Spokesman Shen Guofang made the announcement at the weekly press conference here this afternoon.

Women's Conference Organizing Committee Preparing*OW2303091295 Beijing XINHUA in English 0646
GMT 23 Mar 95*

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—At least 4,000 journalists from at home and abroad will cover the Fourth World Conference on Women, according to an official with the China Organizing Committee (COC) of the conference.

Shi Guangeng, deputy director of the Division of Overseas Journalists under the COC Public Information Committee, said that the number consists of 3,000 from overseas and 1,000 from China.

"That number is very likely to be exceeded," Shi estimated, saying that the COC has made allowances for unforeseen circumstances in hotels, transportation, and food and drink, for guests at the conference.

The Customs officers will simplify formalities for journalists entering the country, as most of them will be carrying equipment.

Shi said that journalists who are bringing equipment should provide a list to his office two months ahead of time to allow them to enter the country more quickly.

The World Conference on Women, which is scheduled for September 4 to 15, is of major interest to the world news media, and journalists from the U.S., Australia, Italy, Austria, Russia and other countries have inquired about further information.

Shi said that Beijing offices of some foreign news media, such as CNN of the U.S., "KOREAN DAILY NEWS" of the Republic of Korea, and "ASAHI SHIMBUN," have asked to cover preparatory work for the conference.

He explained that his division welcomes such requests, and the Division of Overseas Journalists, set up last July,

will provide favorable conditions for overseas journalists, including those from Hong Kong, Macao, and Taiwan.

In accordance with international practices, news media who want to bring satellite transmission equipment should apply to the Division. They will be given permission after the Beijing Telecommunication Bureau approves the application.

The deadline for signing up to cover the conference is the end of May. United Nations headquarters will then send the name list to China.

Reporters can get their visa during July from Chinese embassies and consulates, Shi said.

Three large TV screens will be set up in the main conference halls to provide constant information for journalists.

An information branch sponsored by the XINHUA NEWS AGENCY will have IDD telephones, fax machines, and other equipment, and broadcast reporters can rent recorders, recording rooms, and separate booths at the conference hall.

TV reporters can get help from the China Central Television Station, which will provide another information branch in the Media Hotel.

The COC will take journalists to their hotels and see them off when they leave the country, free of charge. During the conference, journalists can take shuttle buses from hotels to the conference hall.

U.S. Has Fresh Thinking Over Nuclear Issue

OW2203140195 Beijing XINHUA in English 1240
GMT 22 Mar 95

[FBIS Transcribed Text] Islamabad, March 22 (XINHUA)—Pakistan is no longer pressed by the United States to roll back its nuclear program unilaterally, said a Pakistani Foreign Office Spokesman here today.

Addressing a press briefing at the Foreign Office this afternoon, the spokesman said, "Pakistani Prime Minister Benazir Bhutto's coming visit to the United States comes at a time when there is a fresh thinking in Washington on the nuclear issue."

He said, "There is a better understanding in the US of our position on this issue now."

Benazir Bhutto will pay an official visit to the US next month at the invitation of US President Bill Clinton.

"The main aim of the visit is revitalizing our traditional relations in this changing world," the spokesman said, adding, "Kashmir issue will be on the high agenda of the prime minister's talks with the US leaders."

"Cooperation between the two countries in defense and anti-narcotics will also be on the high agenda in talks," he added.

"The relations that Pakistan is seeking with the US will focus on trade, not aid, partnership, not dependence," he stressed.

Besides meeting with the US president, the prime minister will hold discussions with other US administration officials, such as Defense Secretary William Perry, the spokesman said.

United States & Canada

U.S. Trade Deficit With China Up 34 Percent

OW2303034395 Beijing XINHUA in English 0305
GMT 23 Mar 95

[FBIS Transcribed Text] Washington, March 22 (XINHUA)—The United States recorded a trade deficit of 12.23 billion dollars in January, up 68 percent, as imports reached a record high while exports dropped.

The U.S. Commerce Department reported today that the imbalance in goods and services jumped 68.4 percent to 12.23 billion dollars, up from a December deficit of 7.26 billion dollars.

The total imports of goods and services increased 2.9 percent in January to a record 72.93 billion dollars while exports fell 4.6 percent to 60.7 billion dollars.

In January, the merchandise deficit climbed 33 percent to a record 17.19 billion dollars from 12.90 billion dollars in last December. Meanwhile, the surplus on services ebbed 12 percent from 5.64 billion dollars in December to 4.96 billion dollars.

The figure represented the highest deficit in goods and services since the government began tracking this data on a monthly basis from January 1992. The deficit in merchandise of 16.3 billion dollars was the highest in U.S. history, surpassing the old mark of 15.9 billion dollars set in December 1985.

Mexico's currency crisis is blamed for cutting into exports. The trade report showed Mexico's currency crisis, which began on Dec. 20, had already dealt blows to U.S. exports. The U.S. trade balance with Mexico went from a 19 million dollars surplus in December to a deficit 863 million dollars in January, the biggest imbalance with that country in a decade.

Imports from Mexico jumped by 10.9 percent while U.S. Exports fell by 9.8 percent. Mexico is regarded as the country's third biggest export market.

U.S. Deficit with Japan was 4.86 billion dollars in January, the highest for any single country, but down 12.5 percent from December. Analysts said part of the decline represented a disruption in shipping at the huge Kobe port following January's earthquake.

Other big deficits were recorded with China, 2.72 billion dollars, up 34 percent from December, and Canada, America's biggest trade partner, 1.35 billion dollars.

Some economic experts predicted that last year's merchandise deficit, which broke a record high 166.57 billion dollars, could easily climb to 175 billion dollars in 1995.

Many economists predicted that the trade deterioration would put further pressure on the dollar, which in recent weeks has fallen to record lows against the Japanese yen and German mark.

Southeast Asia & Pacific

Sihanouk in Beijing for 'Routine Health Check'

OW2203132095 Beijing XINHUA in English 1314
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Cambodian King Norodom Sihanouk arrived here by a special plane from Phnom Penh this afternoon to have a routine health check.

Chinese Vice Foreign Minister Tang Jiaxuan and Cambodian Ambassador to China Khek Sysoda greeted Sihanouk and his wife at the airport.

Sihanouk is here to have a routine physical examination, according to reliable sources.

Reportage on Talks With Philippines Over Spratlys

Talks Deepen 'Understanding'

OW2203134195 Beijing XINHUA in English 1248
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA/OANA)—Discussions between China and the Philippines on issues of common concern ended here today.

Chinese Vice-Foreign Minister Tang Jiaxuan and Philippine Under-Secretary of Foreign Affairs Rodolfo Severino represented the two sides at the discussions, which began here Monday [20 March].

Chinese Foreign Ministry sources said that the two sides "discussed bilateral relations as well as international and regional issues of common concern."

The two sides "fully exchanged views" on the issue of the Nansha [Spratly] Islands, in the South China Sea, including Meijijiao, or "Mischief Reef", and began to study the possibility of co-operation in the Nansha region.

The two sides agreed that disputes should be settled in a peaceful way and through negotiations, and that the disputes on the Nansha issue should not influence the normal development of bilateral ties.

The two sides are to continue their discussions on the issue.

Both sides said they believed that the discussions "further deepened mutual understanding and broadened their common grounds," and that the discussions would help "lay a favorable basis" for further negotiations between the two countries on the Nansha issue, according to the sources.

On Tuesday Chinese Vice-Premier and Foreign Minister Qian Qichen met with Severino, who arrived here Sunday for the discussions.

Qian said China and the Philippines are friendly neighbors, and bilateral relations have been remarkably growing since the establishment of diplomatic ties 20 years ago.

The frequent exchange of visits between leaders of the two countries has deepened the friendship and mutual understanding between the two nations, Qian noted.

"In general, bilateral relations are good, and China and the Philippines have no conflicts on fundamental interests," Qian was quoted by sources as telling Severino.

As for some issues in bilateral relations, Qian said, the two sides should "increase trust and seek proper settlements with sober minds and in a constructive way."

The high-level understanding reached by the leaders of the two countries on the Nansha issue—putting disputes aside and developing the area together—are the best ways to solve these problems, Qian said.

Qian pointed out that both China and the Philippines face the task of developing their economies and improving the living standards of their people, and both countries need to strengthen friendly relations with other nations.

Therefore, Qian said, to put aside the disputes between the two sides will benefit the development of both countries and the traditional friendship between the two peoples, as well as peace and stability in the region.

Now the discussions between the two sides on relevant issues have begun, Qian said, adding that the arrival of Severino was a "positive step". He said he hoped that more progress could be made in the process of such discussions.

According to the sources, Severino expressed satisfaction with the development of bilateral relations over the past 20 years.

The development of bilateral ties has not only promoted the progress of the two countries, but also enhanced peace and stability in the region, the under-secretary said.

An important reason for the favorable development of bilateral ties is the understanding reached by leaders of the two countries, that is, to promote the advance of

bilateral relations of friendship and cooperation by putting aside the dispute on the issue of the South China Sea, Severino was quoted as saying.

He said he agreed that the two sides should continue to seek settlement of the problem cool-headedly in an atmosphere of mutual trust.

Severino conveyed the regards of Philippine Foreign Secretary Roberto Romulo to Qian. Qian, in his turn, asked Severino to send his regards to Romulo.

No Agreement Reached

BK2303032395 Quezon City GMA-7 Radio-Television Arts Network in Tagalog 2230 GMT 22 Mar 95

[FBIS Translated Text] The Philippines ended its three-day talks with China in Beijing on the Spratlys issue without reaching an agreement. Nevertheless, the talks ended with commitments to hold more future consultations. The Chinese group headed by Chinese Vice-Foreign Minister Tang Jiaxuan did not release any statement, although the latter stressed that discussions on the Spratlys dispute should continue. Foreign Affairs Undersecretary Rodolfo Severino said that while the Chinese had maintained their claim on the Spratly Islands, his country's position regarding the islands had also been made clear.

Liu Huaqingb Meets Thai Commander in Chief

OW2203160995 Beijing XINHUA in English 1440 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Liu Huaqing, vice-chairman of China's Central Military Commission, met with General Wimon Wongwanit, commander-in-chief of the Royal Thai Army, and his party here this evening.

Extending a welcome to Wimon, Liu voiced his appreciation for Wimon's efforts in promoting the friendship between the two countries and the two armed forces.

China and Thailand enjoy a traditional friendship and they have no conflicts on fundamental interests, Liu said, adding that the bilateral friendly co-operation has been expanding constantly.

He said that the frequent high-level exchanges between the two countries and the two armed forces have helped to enhance the mutual understanding, trust and friendship.

While expressing thanks for the warm reception he has received here, Wimon told Liu that he has been to China four times already and that he has seen new developments every time.

The Thai government highly appreciates China's sustained rapid economic growth given its huge population, he said.

The relationship between Thailand and China is one of real friendship, Wimon said, adding that the Thai side

hopes that the high-level exchanges between the two countries will be maintained, and the multi-level exchanges and co-operation between the two armed forces as well as their specialized contingents will be strengthened.

After the meeting, Liu hosted a dinner for the Thai visitors.

Xu Huizi, deputy chief of the general staff of the Chinese People's Liberation Army, attended the meeting and the dinner.

Qian Qichen, Papua New Guinean Official Meet

OW2303111795 Beijing XINHUA in English 1056 GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—Chinese Vice-Premier and Foreign Minister Qian Qichen met with Gabriel Dusava [name as received], Secretary-General of the Foreign Ministry of Papua New Guinea, here this afternoon.

During the meeting, Qian said that relations between China and Papua New Guinea have seen a smooth development since the two countries forged diplomatic ties 19 years ago. He expressed the hope that the two countries' ties will be further promoted on the existing basis.

Dusava is here to attend the third consultation between the two foreign ministries. This morning he had a talk with Chinese Vice-Foreign Minister Liu Huaqiu on bilateral relations and international and regional issues of common concern.

Near East & South Asia

Qian Qichen Addresses LAS Reception

OW2203180995 Beijing XINHUA in English 1458 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—The League of Arab States (LAS) Mission in Beijing held a reception here this evening to mark the 50th anniversary of the founding of the League.

Chinese Vice-Premier and Foreign Minister Qian Qichen, Head of the LAS Mission in Beijing Ibrahim M. Hassanain [name as received], and Dean of the Diplomatic Corps of Arab States and Lebanese Ambassador to China Farid Samahah spoke at the reception.

About 100 diplomatic envoys of Arab states stationed here and officials from Chinese departments concerned attended the reception.

In his speech, Qian noted that half a century has passed since the founding of the League in 1945. Its membership has increased from seven at the outset to today's 22, and it has become an organization of great influence in international affairs.

Over the past 50 years it has made unremitting efforts to promote solidarity and cooperation among Arab states, and safeguard their national independence and state sovereignty, he continued.

It has thus won trust and respect from Arab states and made major contributions to a greater role of the Arab world in international affairs, Qian added.

"We heartily rejoice at the achievements you have scored," Qian said.

The past 50 years have witnessed tremendous and profound changes in the world, and in the Middle East in particular. Major progress has been achieved in the Middle East peace process, with a good beginning having been made toward a comprehensive and just settlement of the Middle East question.

"Nevertheless, the road ahead remains tortuous and it is our hope that the parties concerned will continue their efforts to increase co-operation and removing difficulties so as to move the Middle East peace process forward," he pointed out, adding that it is the shared aspiration of all countries in this region to see a lasting peace, economic growth and common prosperity in the Middle East.

He said he is convinced that the Arab community, as an important force in the international arena, will play an increasingly prominent role in international and regional affairs in the new historical conditions.

On relations between China and Arab states, which enjoy a traditional friendship, Qian said that with the concerted efforts of both sides, the friendly relations and cooperation have grown steadily in recent years, "and the ever-closer political ties and frequent exchange of high-level visits have further enhanced our mutual understanding and friendship."

In the meantime, he stated, China and the Arab states have conducted extensive exchanges and fruitful cooperation in the economic, trade, scientific and technological, cultural and other areas.

"We appreciate the valuable support rendered to us by the Arab states in international affairs and value our friendly relations and cooperation with Arab states," added Qian.

He said, "No matter how the international climate may change, China will, as always, support the just cause of the Palestinian people and enhance unity and cooperation with the Arab states."

At the reception, Hassanain also read a speech by Ahmed Esmat Abdel Meguid [name as received], secretary general of the League of Arab States, to the effect that it is very important for the League to continue its cooperation and strengthen relations with China, especially when China is witnessing rapid economic growth.

Hassanain also gave a press briefing Tuesday on the League's history and major achievements.

Chen Junsheng Meets Yemen Official

OW2203192795 Beijing XINHUA in English 0741
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Chinese State Councillor Chen Junsheng met with 'Abd-al-Rahman Ba-Fadl, minister of fishing resources of Yemen, and his party here today.

The Yemeni guests have come here at the invitation of the Chinese Ministry of Agriculture.

Pakistan Envoy Discusses Cooperation With China

OW2303075595 Beijing XINHUA in English 0713
GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—The Pakistani Ambassador to China, Ashraf Jehangir Qazi, described the scope of cooperation with China as very large, but said that Pakistan will keep improving it.

Pakistan hopes to build on existing ties to expand its cooperation with China in industry, agriculture, rural township development, and other areas, the ambassador said.

In a recent interview with XINHUA prior to the 55th anniversary of Pakistan Day, Qazi noted that during its 48-year history Pakistan has "completed many fundamental tasks."

Pakistan has consolidated its status as a country, adopted a republican constitution, held free multi-party elections, built up an "impressive" industrial set-up, achieved sufficiency in food, and, in recent years, undertaken major reforms and initiatives in the economy and in opening up, he said.

When Pakistan was created, on the other hand, it was in "very difficult circumstances" and basically, had to "start from scratch."

"China has rendered Pakistan significant assistance," he said, adding that, "there are many symbols in Pakistan of China's sincere friendship and cooperation."

The ambassador cited the Karakoram Highway, linking the two countries, as one of these symbols, as well as the Heavy Mechanical Complex and the Heavy Forging and Casting Complex. By means of these and other projects, he added, China has "contributed to the development of Pakistan's engineering industry" and they have "significantly strengthened Pakistan's economic strength."

According to him, Pakistani-Chinese relations are now a "symbol of harmonious relations" between countries of different sizes, different social systems, and different ideologies, and the two countries have achieved this through "sincerity and realism" and by adhering to the five principles of peaceful co-existence.

As in the case of China, Pakistan is opening up to the outside and is instituting economic reforms. With the history of good relations, the geographical proximity, and the experience that China has had in developing Pakistan's industrial structure, "there is a huge scope" within which the two countries can expand further their cooperation in industry, agriculture, their economies, and trade, he explained.

Qazi said Pakistan looks forward to the participation of enterprises in the modernization and expansion of their facilities, many of which were established with China's assistance and cooperation.

He said that he feels that China and Pakistan are in a position to establish joint ventures to develop huge infrastructure development projects in Pakistan.

"We also want to take advantage of the fact that in China's modernization and reform program, the emphasis is shifting away from the coastal region toward the central and western provinces, which are physically closer to Pakistan," Qazi said.

Pakistan hopes to take advantage of this opportune moment and expand its cooperation with China in a positive way for the common good, the diplomat noted.

"We feel that the overall climate is such that China and Pakistan can effectively assist each other's modernization program," he said.

Sub-Saharan Africa

Rong Yiren, Rwanda's Kagame Meet, Sign Accords

OW2203142395 Beijing XINHUA in English 1330
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Chinese Vice-President Rong Yiren held talks with Rwanda's vice-president General Paul Kagame today, exchanging views on how to further strengthen bilateral relations and trade and economic links.

After extending a welcome to the general on his first visit to China, Rong said that he appreciated the Rwandan government's efforts to treasure the traditional friendship and co-operation between the two countries and that he was satisfied with the healthy development of their bilateral relations over the past 20 years, during which the two countries conducted fruitful co-operation in political, economic and other fields.

Despite some domestic changes in Rwanda last year, they did not affect the friendly and co-operative relations between the two countries, Rong noted.

China attaches great importance to Kagame's current China visit, saying the trip is of great significance for promoting the development of bilateral relations.

Kagame said he was excited to have had the chance to visit China. He said he believed his current visit would help him to learn from China's experience. He said he shared Rong's remarks on Sino-Rwandan relations, noting that the bilateral relations are solidly based, featuring good co-operation in enhancing economic ties, trade, and co-operation in public health work and agriculture.

The Rwandan government and people highly value and thank the Chinese government for its aid in helping develop the Rwandan economy. Moreover, the Kagame stressed, China, as a permanent member of the UN Security Council, has made an enormous contribution to realizing peace in Rwanda. Rong stated that the Chinese government would continue to provide whatever aid it could to Rwanda for developing its economy.

On how the strengthening of economic ties, Rong said he hoped enterprises of the two countries would become the mainstay in furthering economic co-operation between them.

The strengthening and consolidation of Rwanda-China friendly and co-operative relations are the common desire of the two governments, Kagame said, adding that his government would continue to make efforts toward the goal.

Before the talks, Rong held a grand welcoming ceremony in Kagame's honor and accompanied him to review the guard of honor of the Chinese People's Liberation Army.

The talks were followed by a signing ceremony for the exchange of documents on the Chinese government's provision of goods and material to Rwanda.

West Europe

Qian Qichen Meets Former Belgian Prime Minister

OW2103120695 Beijing XINHUA in English 1105
GMT 21 Mar 95

[FBIS Transcribed Text] Beijing, March 21 (XINHUA)—Chinese Vice-Premier and Foreign Minister Qian Qichen met with Belgium's former Prime Minister Leo Tindemans here today.

Qian described Tindemans as a well-known politician in Europe who made positive contributions to the development of Sino-Belgian relations.

At the visitor's request, Qian gave an account of China's position on the post-Cold War international situation and of China's foreign policy.

Tindemans spoke highly of China's economic development. He expressed the hope that China would play a bigger role in world affairs.

Tindemans and his party are here as guests of the Chinese People's Institute of Foreign Affairs.

German State Delegation Seeks Chemical Industrial Ties

HK2203094895 Beijing CHINA DAILY in English
21 Mar 95 p 5

[By Zhang Yuan : "Germany Explores Chemical Teamwork"]

[FBIS Transcribed Text] China's Ministry of Chemical Industry and the German economic hub of Nordrhein-Westfalen, yesterday ended a two-day symposium in Beijing—to explore cooperation opportunities and investment between medium- and small-sized chemical firms of the two sides.

Chen Lihua, director of the ministry's international co-operation department, said such co-operation is of great importance to further strengthening their economic ties and should benefit both sides.

At present, the above-county level, medium-and small-sized chemical firms in China number more than 5,000. Their production accounted for about half of the ministry's total output value of 197 billion yuan (\$23.45 billion) in 1994.

There are also over 45,000 rural chemical factories in the countryside which produced 130 billion yuan (\$15.47 billion) worth of products last year.

However, many of the firms still use outdated technology and backward equipment. This means that advanced technology and equipment as well as overseas funds are needed to upgrade them.

For this reason, it is a must to strengthen co-operation between Chinese and foreign medium-and small-sized chemical firms, Chen said. He added that Chinese medium- and small-sized chemical firms have a strong ability to readjust their production to meet market needs and a strong wish to co-operate with foreign partners.

Chen also disclosed that the ministry and Nordrhein-Westfalen are negotiating the signing of an agreement on comprehensive co-operation in the chemical sector.

Robert Mainberger, head of the Department for Industry, Technology and Qualification under the Ministry of Economics and Technology of the state of Nordrhein-Westfalen, said that the 15 German firms participating in the symposium are here to seek opportunities for jointly marketing products, technology exchanges, co-developing new technology and new products, and establishing joint ventures with the 20 Chinese partners present at the symposium.

Nordrhein-Westfalen produces about 25 percent of Germany's total chemical goods and is the home of the best known chemical giants of Bayer and Henkel.

"The great potential of co-operation in the chemical industry closely links us together and the success of such co-operation will help strengthen the economic strength of our two countries and promote future development of the chemical industry," Mainberger said.

The German delegation will also hold a similar two-day symposium in Nanjing, Jiangsu Province on Thursday. Jiangsu has sister-province ties with Nordrhein-Westfalen. About 40 firms from Jiangsu will discuss cooperation and investment possibilities with their German counterparts.

Li Guixian Meets With Visiting Spanish Minister

OW2203100595 Beijing XINHUA in English 0835
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Chinese State Councillor Li Guixian met with Jeronimo Saavedra, Spanish Minister for Public Administrations, and his party here this afternoon.

The minister and his party are here on a visit as guests of Chinese Minister of Personnel Song Defu.

Political & Social

NPC Adopts People's Bank of China Law

OW2303045695 Beijing XINHUA Domestic Service in Chinese 2119 GMT 20 Mar 95

["The Law of the People's Republic of China on the People's Bank of China, adopted by the Third Session of the Eighth National People's Congress on 18 March 1995"]

[FBIS Translated Text] Chapter 1. General Provisions

Article 1. This law is formulated to define the status and functions of the People's Bank of China [PBC], ensure that state monetary policies are correctly formulated and implemented, to establish and improve the central bank's macro-control system, and to strengthen supervision and control over banking institutions.

Article 2. The People's Bank of China is the central bank of the People's Republic of China.

Under the leadership of the State Council, the People's Bank of China formulates and carries out monetary policies, and exercises supervision and control over financial institutions.

Article 3. The aim of a monetary policy is to maintain the stability of currency value and, in this way, to promote economic growth.

Article 4. The People's Bank of China exercises the following functions:

- (1) Formulating and carrying out monetary policies according to the law;
- (2) Issuing Renminbi and controlling its circulation;
- (3) Examining and approving applications regarding financial institutions and exercising supervision and control over them in line with regulations;
- (4) Exercising supervision and control over the financial market in accordance with regulations;
- (5) Issuing decrees and regulations concerning financial institutions and supervision and control over them;
- (6) Holding, managing, and operating state foreign currency reserves and gold reserves;
- (7) Managing the state treasury;
- (8) Maintaining normal operations in the payment and accounting systems;
- (9) Compiling, investigating, analyzing, and predicting the number of financial institutions in debt;
- (10) Engaging in relevant international banking activities as the state's central bank; and
- (11) Other functions stipulated by the State Council.

In order to carry out a monetary policy, the People's Bank of China may engage in financial activities in line with the relevant provisions written in Chapter IV of this Law.

Article 5. Decisions on the amount of fiscal money supply, interest rate, exchange rate, and other important matters stipulated by the State Council and made by the People's Bank of China shall be enforced after obtaining approval from the State Council.

Decisions on other matters concerning monetary policy, not stipulated in the preceding paragraph, made by the People's Bank of China, shall be carried out immediately after they are made; such decisions shall be reported to the State Council for the record.

Article 6. The People's Bank of China shall submit work reports on monetary policies and financial supervision and control to the NPC Standing Committee.

Article 7. The People's Bank of China independently carries out monetary policies, exercises its functions, and operates its business according to the law under the leadership of the State Council, and shall not be subject to interference by local governments, government departments at all levels, social organizations, and individuals.

Article 8. The entire capital of the People's Bank of China is invested by the state, thereby belonging to the state.

Chapter 2. Organizational Structure

Article 9. The People's Bank of China shall have a governor and a number of vice governors. The choice of the governor shall be decided on by the National People's Congress [NPC] upon nomination by the premier of the State Council; the choice of governor shall be decided on by the NPC Standing Committee when the NPC is not in session. The appointment and dismissal of the governor shall be made by the President of the People's Republic of China [PRC]. The vice governors of the People's Bank of China shall be appointed and dismissed by the premier of the State Council.

Article 10. The People's Bank of China shall implement a system under which the governor assumes overall responsibility. The governor shall direct the work of the People's Bank of China, and the vice governors shall assist the governor in carrying out the work.

Article 11. The People's Bank of China shall set up a monetary policy commission. The responsibility of the monetary policy Commission and its makeup and work procedures shall be stipulated by the State Council and reported to the NPC Standing Committee for the record.

Article 12. The People's Bank of China, based on the need to perform its responsibilities, shall set up branches as its agencies. The People's Bank of China shall exercise unified leadership and control over its branches.

The branches of the People's Bank of China shall be responsible for supervision and control of banking within their respective jurisdiction and shall operate relevant businesses as authorized by the People's Bank of China.

Article 13. The governor, vice governors, and other functionaries of the People's Bank of China shall faithfully discharge their duties and shall not abuse their authority, or play favoritism and commit irregularities. They shall not hold posts concurrently in banking institutions, enterprises, or foundations.

Article 14. The governor, vice governors, and other functionaries of the People's Bank of China shall protect state secrets in accordance with the law; they are responsible for protecting the secrets of banking institutions and the relevant parties under their supervision and control.

Chapter 3. Renminbi

Article 15. The legal tender of the PRC is Renminbi. No unit or individual shall refuse to accept Renminbi as payment for all kinds of public or private debts within the territory of the PRC.

Article 16. The unit of Renminbi is yuan, and the fractional currency units of Renminbi are jiao and fen.

Article 17. Renminbi shall be centrally printed and issued by the People's Bank of China.

When issuing new editions of Renminbi currency, the People's Bank of China shall publicly announce the time of issuance, denominations, designs, and specifications of the new editions.

Article 18. Counterfeiting or modifying Renminbi is prohibited. The sale or purchase of counterfeited or modified Renminbi is prohibited. Transporting, possessing, or using counterfeited, modified Renminbi is prohibited. Deliberately damaging Renminbi is prohibited. Illegal use of Renminbi designs in publicity materials, publications, or other commodities is prohibited.

Article 19. No units or individuals shall print or issue coupons or notes in place of Renminbi to circulate in the market.

Article 20. Fragmented or stained Renminbi shall be redeemed in accordance with the regulations of the People's Bank of China; the People's Bank of China shall be responsible for recalling and destroying fragmented or stained Renminbi.

Article 21. The People's Bank of China shall set up a Renminbi issuing treasury and set up subtreasuries in its branches. Subtreasuries shall act in accordance with the order of the treasury at the higher level in appropriating Renminbi issuing funds. No units or individuals shall use the Renminbi issuing fund in violation of regulations.

Chapter 4. Operations

Article 22. The People's Bank of China may employ the following instruments to implement monetary policies:

- (1) Requiring banking institutions to put up deposit reserve funds in accordance with the set ratio;
- (2) Setting the central bank prime rate;
- (3) Providing rediscounts for banking institutions having accounts with the People's Bank of China;
- (4) Providing loans to commercial banks;
- (5) Purchasing or selling national debts and other government bonds and foreign exchange on the open market;
- (6) Other monetary policy instruments determined by the State Council.

In employing the instruments listed in the preceding paragraph to implement monetary policies, the People's Bank of China may stipulate specific conditions and procedures.

Article 23. The People's Bank of China may operate the national treasury in accordance with the provisions of laws and administrative decrees and regulations.

Article 24. The People's Bank of China may issue national debts and other government bonds to, and redeem them from, banking institutions on behalf of State Council finance departments.

Article 25. The People's Bank of China may set up accounts for banking institutions based on needs; however, it may not extend overdrafts to accounts held by banking institutions.

Article 26. The People's Bank of China shall organize or assist in organizing a system for banking institutions to carry out settlements among themselves, coordinate matters related to settlements among banking institutions, and provide settlement services. Specific measures shall be formulated by the People's Bank of China.

Article 27. Based on the need to implement monetary policy, the People's Bank of China may determine the amount, period, interest rate, and other terms of loans to commercial banks; the period of loans shall not exceed one year.

Article 28. The People's Bank of China shall not extend overdrafts to the government treasury or directly subscribe and market national debts or other government bonds.

Article 29. With the exception of special non-banking financial institutions designated by the State Council, the People's Bank of China shall not provide loans to local governments or government departments at various levels, to non-banking financial institutions, or to other units or individuals.

The People's Bank of China shall not act as guarantor for any units or individuals.

Chapter 5. Banking Supervision and Control

Article 30. The People's Bank of China exercises supervision and control over banking institutions and their operations, and safeguards the legitimate and steady operations of the banking industry.

Article 31. The People's Bank of China shall approve the establishment, change, and termination of banking institutions as well as the scope of their operation.

Article 32. The People's Bank of China has the right to conduct auditing, inspection, and supervision on banking institutions regarding their deposits, loans, settlements, and bad debts, as the occasion demands.

The People's Bank of China has the right to carry out inspection, and supervision over banking institutions' act of increasing or lowering interest rates for deposits and loans in violation of regulations.

Article 33. The People's Bank of China has the right to require banking institutions to submit balance sheets, profit and loss statements, and other financial and accounting statements and data.

Article 34. The People's Bank of China is responsible for centrally compiling national banking statistical data, statements, and reports, and it shall make them public in accordance with relevant state regulations.

Article 35. The People's Bank of China shall guide and supervise banking operations of banks established in connection with the implementation of state policies.

Article 36. The People's Bank of China shall establish and perfect an auditing and inspection system within its own system, and strengthen internal supervision and control.

Chapter 6. Financial Accounting

Article 37. The People's Bank of China shall implement an independent financial and budget management system.

The budget of the People's Bank of China, after examination and approval by the State Council's finance department, shall be incorporated into the central budget and come under the State Council Finance Department's budgetary supervision.

Article 38. Revenues of the People's Bank of China in each fiscal year, after deducting expenditures for the year and after retaining net profit from general reserve funds according to a ratio approved by the State Council's Finance Department, shall be totally turned over to central finance.

Deficits of the People's Bank of China shall be made up by appropriations from central finance.

Article 39. Financial revenues and expenditures and accounting transactions of the People's Bank of China shall follow legal and administrative rules as well as the

national unified financial accounting system; and shall accept the auditing and supervision of the State Council's Auditing Agency and Finance Department respectively, according to the law.

Article 40. The People's Bank of China shall compile, within three months of the end of each fiscal year, a balance sheet, a profit and loss statement, and other relevant financial accounting statements and charts, as well as a fiscal report; and shall publish them according to the relevant government provisions.

The fiscal year of the People's Bank of China begins on 1 January and ends on 31 December.

Chapter 7. Legal Responsibilities

Article 41. Forging or selling counterfeit Renminbi, or knowingly transporting counterfeit Renminbi shall be affixed with the criminal responsibility according to the law.

Altering or selling altered Renminbi or knowingly transporting altered Renminbi, which constitutes a crime, shall be affixed with the criminal responsibility according to the law; where the case is not serious, individuals concerned shall be detained for no more than 15 days and be given a fine of less than 5,000 yuan by the public security organ.

Article 42. Purchasing forged or altered Renminbi or knowingly holding and using forged or altered Renminbi, which constitutes a crime, shall be affixed with criminal responsibility. Where the case is not serious, individuals concerned shall be detained for no more than 15 days and be given a fine of less than 5,000 yuan by the public security organ.

Article 43. Illegal use of drawings of Renminbi in publicity materials, publications, or other commodities shall be ordered by the People's Bank of China suspended from use and the illegal drawings destroyed; the illegal incomes shall be confiscated and a fine of no more than 50,000 yuan given.

Article 44. Printing and selling token money as a substitute for Renminbi for circulation in the market shall be ordered by the People's Bank of China suspended as an illegal activity and a fine of no more than 200,000 yuan given.

Article 45. Violators of the laws and administrative rules pertaining to banking supervision and control shall be ordered by the People's Bank of China to suspend illegal operations and be given administrative sanctions according to the law; where a crime is committed, the criminal responsibility shall be affixed.

Article 46. When an individual concerned refuses to obey administrative sanctions, the individual may file an administrative lawsuit according to the provisions in the "PRC Administrative Procedural Law."

Article 47. The People's Bank of China shall give administrative sanctions to officers or other personnel directly responsible for one of the following acts; where a crime is committed, criminal responsibility shall be affixed:

- (1) Providing loans in violation of the provisions in paragraph one of Article 29 of this law;
- (2) Providing warranty for units or individuals; and
- (3) Unauthorized issuance of funds.

Officers and other personnel directly responsible for one of the acts listed in the preceding paragraph, which causes damage, shall bear partial or entire responsibility for compensation.

Article 48. Officers and other personnel of local governments, government departments at various levels, and social organizations, as well as individuals, who forcibly order functionaries of the People's Bank of China to provide loans or warranty in violation of the provisions in Article 29 of this law, shall be given administrative sanctions; where a crime is committed, the criminal responsibility shall be affixed; where damage is incurred, such officers and personnel shall bear partial or entire responsibility for compensation.

Article 49. Functionaries of the People's Bank of China, who leak state secrets and commit a crime, shall be affixed with the criminal responsibility according to the law; where the case is not serious, such functionaries shall be given administrative sanctions.

Article 50. Functionaries of the People's Bank of China, who embezzle public funds, take bribes, bend the law for the benefit of relatives and friends, abuse powers, or neglect duties; and commit a crime, shall be affixed with the criminal responsibility according to the law. Where the case is not serious, such functionaries shall be given administrative sanctions.

Chapter 8. Appendix

Article 51. This law becomes effective upon promulgation.

Jiang Zemin Signs Presidential Decree on Education Law

OW2303054295 Beijing XINHUA Domestic Service in Chinese 2144 GMT 20 Mar 95

[FBIS Translated Text] Beijing, 21 Mar (XINHUA)—Presidential Decree No. 45 of the People's Republic of China:

The "Education Law of the People's Republic of China," adopted at the Third Session of the Eighth National People's Congress on 18 March 1995, is hereby promulgated; the law becomes effective as of 1 September 1995.

[Signed] Jiang Zemin, President of the People's Republic of China.

[Dated] 18 March 1995.

Agriculture Minister Seeks More Funds for Interior

HK2303022095 Lanzhou Gansu People's Radio Network in Mandarin 2300 GMT 9 Mar 95

[FBIS Translated Text] In the last few days, the province's deputies attending the Third Session of the Eighth National People's Congress [NPC] held focused discussions on the hot topic of conversation, namely, agriculture.

Yesterday [9 March], State Minister of Agriculture Liu Jiang visited the Gansu delegation of deputies [to the NPC] to solicit opinions. As soon as the meeting started, Deputy Sun Ying spoke before others. He said: Gansu's agriculture has made progress in the last few years. However, it is confronted with many difficulties in agricultural capital construction and assistance to the poor. The central authorities should take actual measures to support Gansu in developing agriculture in a broader sense in terms of policy and funding. The moment Sun Ying finished speaking, other deputies applauded.

During the discussion, [Chairman of the Chinese People's Political Consultative Conference provincial committee] Lu Keqian and (Li Wanlin) said: We say every year that agriculture is important, but at the critical moment we relax our efforts in agriculture. Now the central authorities have made a great determination. What is important now is to solve the problem of just paying lip service and doing nothing. Upon hearing this, Liu Jiang chipped in and said: You have given voice to my innermost feelings. I thank you all for your support for the Ministry of Agriculture.

Deputy (Tao Jimi) said: I suggest the central authorities pursue a financial policy of tilting toward western China. Liu Jiang chipped in and said: A good remark. I applaud your good suggestion. Soon afterward, Minister Liu Jiang told the deputies: The leading party group in the ministry has studied this issue many times and maintained that the southern coastal areas have had the capacity to develop themselves but the central and western areas in the country have poor conditions for development. In the days to come, more funds should be spent on development of central and western China. He said that he came here to seek the advice of the people's deputies. This is my innermost thought and feeling. At this moment, Deputy (Zheng Jinxia) stood up and said: I thank you on behalf of the people of my native place.

Ministers Attend Guizhou NPC Delegation Panel Discussion

HK2303021995 Guiyang Guizhou People's Radio Network in Mandarin 2300 GMT 10 Mar 95

[FBIS Translated Text] Yesterday morning [10 March], Ismail Amat, state councillor and minister of the State Nationalities Affairs Commission, and Liu Zhongli, minister of finance, went to the Guizhou Hall of the Great Hall of the People to discuss the government work

report and the planning and financial work reports with the Guizhou delegation to the Third Session of the Eighth National People's Congress [NPC].

Delegates including [Governor] Chen Shineng, Zhao Ziyi, (Yao Maoxun), (Sun Cheng), (Gao Kailiang), (Huang Guowen), and (Liu Changgui) examined the government work report and the planning and financial work reports as a group and talked about existing issues in Guizhou, such as its finance, taxation, key construction projects, large and medium-sized enterprises, and the development of an economy of minority nationalities. They pointed out: We wish for the Central Party Committee and the State Council to help Guizhou overcome its financial difficulty; settle, as soon as possible, conflicts exposed following implementation of the revenue-sharing system; solve the problems faced by large and medium-sized enterprises in borrowing money; secure funding for [words indistinct]; and to help minority nationalities develop their economies in light of the implementation of the law on regional autonomy of minority nationalities.

Liu Zhongli and Ismail Amat addressed the meeting in turn. In his speech, Liu Zhongli commented on the operational problems of the revenue-sharing system. He said: To implement the revenue-sharing system, the state has to pool some of its financial resources for, first, building certain major projects, and second, supporting undeveloped areas. The party Central Committee and the State Council are always concerned about and in support of minority nationality areas. The Ministry of Finance, as a ministry handling concrete affairs, will try its best to support such minority nationality areas as Guizhou.

Ismail Amat spoke highly of the unity of between the people of all nationalities in Guizhou and its social and economic progress and bade them to keep carrying forward, under the leadership of the Guizhou provincial party committee and the provincial government, the glorious tradition of nationality solidarity and militancy and doing their utmost to seek development. If they do so, Guizhou will be much more successful.

Outline of Family Planning Work 1995-2000

HK2203151895 Beijing RENMIN RIBAO in Chinese
24 Feb 95 p 11

[By the State Family Planning Commission: "Outline of China's Family Planning Work (1995-2000)"]

[FBIS Translated Text] This outline is formulated in order to realize the objectives of socialist modernization and to promote the sustained and healthy development of family planning in China.

I. The Situation Before Us

1. It is China's basic national policy to practice family planning to control population growth and improve the quality of its populace. In the past 20 years or so, particularly in the years since the Third Plenary Session

of the 11th CPC Central Committee, remarkable successes have been achieved in our family planning work in the wake of economic development.

—People's ideas on marriage and childbearing have turned in favor of late marriages and childbearing and fewer and better births. The birth rate has dropped by a big margin; the momentum of excessive population growth has been basically contained; and the quality of the population has been steadily improving.

—The saving of huge amounts of resources and funds as a result of the practice of birth control is beginning to ease the pressure of rapid population growth on clothing, food, housing, and transportation, as well as on education, medical care, employment, resources, and environmental protection, and has played an important role in promoting socio-economic development and in raising people's living standards.

—The broad masses of women have freed themselves from frequent childbearing and heavy housework. They have more opportunities to partake in the study of science and culture and in economic, political, and social activities. This has raised the status of women.

These successes have been achieved as a result of the concerted efforts of the vast numbers of cadres, particularly grass-roots cadres and family planning workers, and the active participation of the masses, under the leadership of the party Central Committee, the State Council, as well as the party committees and governments at various levels.

2. We must soberly see that our country's population situation does not yet allow us to take an optimistic view and that the task of family planning remains formidable. The present state of population and family planning work is as follows: 1) The base is still large. Although the birth rate has dropped to a fairly low level, the absolute number of new births each year remains substantial, and total population is still growing. 2) The level of births is still unstable. Some people have not yet changed their childbearing views, and some actual problems have not yet been properly resolved. If the work is not done well, the level of births is likely to rise again. 3) There is still an imbalance between regions, and birth levels remain high in some regions. The overall level of family planning is not very high in most rural areas. In particular, family planning services still fall short of requirements in some remote and poor areas. 4) Under the new situation of building a socialist market economic system, family planning work is up against new conditions and new problems. Family planning is difficult among the shifting population, and problems relating to the quality, structure, and other aspects of population still remain. Hence, practicing family planning to control population and improve the population quality remains a formidable and pressing strategic task.

II. The Fundamental Task, Major Goal, and Working Principles

3. In accordance with the overall plan drawn up by the party and government for socialist modernization, the

fundamental task of family planning during the 1995-2000 period is to take Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and the party's basic line as the guiding principle, conscientiously implement the "Decision of the CPC Central Committee and State Council on Strengthening Family Planning and Strictly Controlling Population Growth" (Zhongfa [zhong fa 0022 4099, issued by the central authorities] (1991) No 9), uphold the principle of grasping the task firmly and well, and bring family planning work to a new level. We should see to it that the population control targets for the 1995-2000 period are realized. At the same time, we should strive to raise the population quality and improve the population structure by bringing population planning more into line with economic and social development, environmental protection, and the utilization of resources, in order to ensure the sustained development of the economy and to provide a good demographic environment for socialist modernization.

4. The major goal of family planning is to lower the natural population growth rate to under 10 per thousand by the year 2000. The total population of the country (excluding Taiwan) is to be kept below 1.23 billion by the end of 1995 and below 1.3 billion by 2000. While strictly controlling population and keeping population below a reasonable level, there should be an obvious improvement in population quality. It is also necessary to gradually establish a population and family planning mechanism that has Chinese characteristics and is suited to the needs of the socialist market economy.

5. In order to realize the above-mentioned fundamental task and major goal, we must act in the spirit of emancipating the mind and seeking truth from facts, stick to successful experience already gained, and make constant improvements in family planning. We must conscientiously adhere to the following principles in the course of work:

—It is necessary to insist on making the number one person in the government assume leadership and overall responsibility for the work. Each local government must assume responsibility for its own population plan, coordinate the efforts of the departments concerned and of all quarters, address the population question in a comprehensive way, and create a favorable social environment for the implementation of our country's basic family planning policies.

—It is necessary to incorporate population and family planning into the overall plan for economic and social development, so as to bring population planning more into line with economic and social development. Population plans must embody strict control and must be feasible.

—It is necessary to implement existing family planning policies in an all-round manner. Efforts must be made to preserve the stability and continuity of policies, and to bring birth control within the legal system. While

continuing to improve the social regulation mechanism, it is also necessary to make positive use of economic means, strengthen the mechanism of direction of interest pursuance, and encourage the masses to have fewer births so as to accumulate wealth and achieve a relatively comfortable standard of living more quickly.

—Family planning must be subordinate to and serve the central task of economic construction. It is necessary to integrate family planning with the development of a socialist market economy, the achievement of socialist ideological and cultural progress, and the building of cultured and happy families.

—It is necessary to follow the principle of combining state guidance with the will of the people. Efforts must be made to implement the principle of stressing propaganda and education, stressing preventive measures, and stressing day-to-day work (hereinafter referred to as the "three stresses") in family planning, uphold the mass line of doing everything for the masses and relying on the masses in everything, and strive to improve the quality of service and widen the scope of service, in order to effectively control population growth while cementing close ties between the government and the masses and between cadres and the masses, and maintaining stability and unity.

—It is necessary to rely on scientific and technological advances in family planning. We must strive to raise the scientific and technological level in family planning, and provide effective service in controlling population growth and raising the population quality.

—It is necessary to proceed from reality and practice the method of providing guidance to different types of people. The stress should be put on birth control in the countryside, particularly in provinces with huge populations and in the economically underdeveloped regions. Further efforts must also be made to do a good job of birth control in cities.

III. Stabilize Existing Policies, Strengthen the Building of the Legal System

6. We must continue to implement existing family planning policies in an all-round manner. Early marriage and childbearing as well as births in contravention of policy stipulations must be stopped, and efforts must be made to reduce accidental pregnancy and non-planned births.

In order to raise the economic and social development levels and raise the population quality in the minority nationality areas, efforts must also be made to practice family planning in these areas.

7. We must further improve local family planning codes by drawing up the necessary supplementary rules and regulations. We must conscientiously do a good job of making preliminary preparations for the drafting of the "PRC Family Planning Law," make proposals on population and family planning legislation, and provide legal

guarantees for the implementation of family planning. We must also effectively strengthen propaganda and education on the legal system, and help cadres and the masses to consciously fulfill their rights and obligations in family planning as laid down in the Constitution and the related laws and regulations. Efforts must be made to educate family planning workers at all levels to serve the people wholeheartedly. It is also necessary to strengthen supervision over law enforcement, raise the level of law enforcement, and make sure that administration is conducted in accordance with law, that law is enforced correctly and in a civilized manner, and that the legitimate rights and interests of the masses are protected. Violations of law and discipline must be seriously dealt with, and severe blows must be dealt at crimes of disrupting birth control.

8. Research on demographic science must be strengthened. Through demographic associations, efforts should be made to unite the vast numbers of demographic scientists, to deeply unfold scientific research on population and family planning, and to come up with new and better ways of implementing the basic national policy of family planning and tackling the population problem.

IV. Attach Primary Importance to Propaganda and Education To Bring About a Change in the Ideas of the Masses on Childbearing

9. We must energetically develop education, conscientiously implement the "Law of the PRC on Nine-Year Compulsory Education," the "Working Regulations on Wiping Out Illiteracy," as well as the "Outline on Education Reform and Development in China" and the "Outline on the Implementation of Patriotic Education," and improve the scientific and cultural qualities as well as the ideological and moral qualities of nationals. Particular attention must be paid to raising women's cultural level to facilitate the change in their views on marriage and childbearing.

10. We must conduct nationwide propaganda and education on population and family planning in an extensive, penetrating, and sustained way, and guide the masses to embrace an awareness of population matters as well as civilized, progressive, and scientific ideas of marriage and childbearing. Governments at all levels must make positive efforts to coordinate the departments concerned and to mobilize the forces of different quarters. They must make full use of various different means, such as broadcasting, film and television, newspapers and journals, and literature and art, to publicize our demographic situation and basic national policy on population, as well as the need to align population planning with economic and social development, environmental protection, and the utilization of resources. They must disseminate scientific knowledge of healthy reproduction, contraception, and birth control, eugenics, and maternity and child care; advocate late marriage and childbearing, fewer and better births, the idea that giving birth to girls is just as good as giving birth to boys, and

the practice of respecting the old and loving the young; and protect the legitimate rights and interests of women and children. They must also commend those exemplary models who consciously practice birth control, and guide the broad masses of the people in correctly handling the relations between long-term and immediate interests and between national interests and family interests.

Positive efforts must be made to promote demographic culture. Writers and artists must be mobilized to create more and better works that reflect population and family planning, and improvements must be made in the management of relevant literary and art creations, books, and audio-visual products.

11. Propaganda and education must be geared to the needs of the grass-roots levels and the masses and be combined with the promotion of socialist ideological and cultural progress, and efforts must be made to enhance their purpose and efficiency. Efforts must also be made to launch activities of building civilized units, to organize women to take part in mass activities, such as activities of learning culture and technology and comparing achievements and contributions, and to gradually develop a favorable social environment for the promotion of family planning. We must go deep among families to pass on experience and offer advice, and conduct ideological and propaganda work in a patient and meticulous way. In view of the demand of the masses to learn more and become more prosperous, it is necessary to combine propaganda and education on family planning with the popularization of scientific and cultural knowledge, the dissemination of the idea of an affluent society, the improvement of sanitation and public health, the betterment of spare-time cultural life, the development of social welfare, and the cause of social security. In other words, the provision of services should be made a medium of propaganda and education. Party schools, cadre schools, Communist Youth League [CYL] schools, and schools of continuing education at various levels, as well as tertiary and secondary institutions of various types, should include knowledge of population and family planning in their curricula. Knowledge on the demographic situation and puberty should also be included in the curricula of secondary schools (or of senior classes in rural primary schools).

12. It is necessary to strengthen the building of family planning propaganda networks. We must bring fully into play the role of family planning propaganda and education centers at various levels, work hard to produce various types of textual, pictorial, audio, and visual propaganda materials suited to the needs of grass-roots levels, and see to it that birth control propaganda materials can reach individual villages and households. County-level family planning service centers or propaganda centers must have special persons in charge, must be equipped with the necessary propaganda and education equipment and appliances, and must conduct propaganda and training in a planned way. Places with the necessary conditions must establish township demographic schools and village propaganda rooms by all

means available for conducting propaganda and training among grass-roots birth control workers and couples of childbearing age.

By the year 2000, all provincial radio and television stations in the country, 85 percent of prefectural- and county-level radio stations, and 70 percent of prefectural-level (city-level) television stations should have their own special programs on population and family planning.

V. Put the Stress on the Rural Areas, Strengthen Work at the Grass-Roots Levels

13. Strengthening work at the grass-roots levels is the fundamental guarantee for the implementation of family planning policies as well as the major measure for the fulfillment of the "three stresses" in family planning. Leadership at all levels must attach great importance to and grasp family planning work at the grass-roots levels in a down-to-earth manner. It is also necessary to combine family planning with the promotion of material progress as well as ideological and cultural progress in society.

14. The key to doing a good job of family planning lies in strengthening work at the township (town) and village levels, with the focus on the building of grass-roots organizations at the village level, so that they can truly assume responsibility and play their part in promoting family planning. Communists, CYL members, revolutionary army men, and state functionaries, particularly leading cadres at various levels, must take the lead in observing and implementing family planning policies and relevant rules and regulations, do the work well among their children and relatives, and actively conduct propaganda among the masses. Disciplinary inspection departments of the party and supervisory departments of the government must deal strictly with cadres who violate birth control policies, rules, and regulations.

15. It is necessary to develop a contingent of grass-roots personnel who can meet the needs of family planning work in both quantitative and qualitative terms. Village (neighborhood) committees and village groups must be manned with the necessary part-time family planning personnel, and these personnel must be assigned tasks and paid for their services. We must pay attention to the role of family planning associations and other mass organizations, and rely on them to organize the masses to educate themselves, manage their own affairs, and serve themselves. They must do solid and good work for the masses, and must more extensively attract the masses to take part in family planning work.

16. The local authorities must formulate plans, earnestly help the grass-roots levels implement the "three stresses" in family planning, devote major efforts to strengthening various aspects of groundwork, and have the work run on a regular basis step by step. In the rural areas, we must proceed from actual conditions, conscientiously unfold activities of setting up qualified birth control villages in

the rural areas, and combine these activities with activities of building "affluent villages" and "civilized villages." In cities, we must study and work out solutions for new conditions and new problems emerging in family planning under the new situation, and steadily raise the level of family planning work.

17. Efforts must be made to conscientiously implement the "Methods for the Management of Birth Control Among the Shifting Population." Places of destination and places of household registration of the shifting population must coordinate their work well. Departments and organizations of family planning, household registration management, employment, industrial and business management, urban construction, and public order, as well as associations of the self-employed, must practice the system of individual responsibility and work in close coordination to do a good job of birth control management among the shifting population.

VI. Develop Birth Control Science and Technology, Raise the Quality of Technical Services and the Level of Healthy Reproduction

18. We must continue to improve the distribution of scientific research facilities for birth control. We must strengthen the building of national-level key laboratories and laboratories at the ministerial level, and gradually bring them up to international advanced standards. Birth control scientific research units of various localities and departments must give full scope to their strong points, and develop themselves into a birth control scientific research network suited to our country's needs.

19. In the light of actual needs in our country, we must energetically launch applied scientific research on contraception and birth control measures while attaching importance to research on basic science and eugenics, improving existing means of contraception and birth control, and studying and developing new ways and means of regulating births. We must pay attention to the research and development of contraceptive means which make use of Chinese medicine. We must also strengthen basic research on reproductive theories, conduct study on epidemic diseases that affect reproduction as well as on social science, and conduct scientific research on eugenics with a view to reducing prenatal deformities and preventing hereditary diseases. It is also necessary to strengthen international cooperation and exchanges on science and technology, and to do a good job of the import and application of advanced scientific research achievements and new technologies.

20. We must pay attention to the work of putting scientific and technological achievements into application, strengthen the popularization of new technologies as well as the collection, sorting out, and dissemination of scientific and technological information, and strengthen and improve birth control technical services. We must see to it that every needy person is provided with a safe and effective means of contraception.

21. We must effectively strengthen the building of grass-roots organs for birth control technical services, and give full scope to their role. County and township units for health and birth control technical services must have equipment and a manpower structure that are up to standard in addition to a set of regular management procedures. Positive efforts must be made to promote pre-conception services, give individual guidance to people of childbearing age, familiarize women with contraception techniques and measures before they become pregnant, and strive to reduce instances of accidental pregnancies. It is also necessary to provide the masses with technical counseling and services on better births and better health.

22. It is necessary to strengthen leadership over scientific and technological work relating to family planning. Family planning committees at the level of province (autonomous region and centrally administered municipality), prefecture (city), and county (city) must have leadership and management personnel who have the necessary scientific and technological knowledge.

23. Based on development needs, the government and the departments concerned must gradually increase the input of funds in scientific and technological work relating to family planning while opening up more fund-raising channels to promote the development of birth control science and technology.

VII. Strengthen and Improve Planned Population Management as Well as Population Statistics

24. We must conscientiously implement the "Provisional Procedures for Planned Population Management" and the "Rules for Planned Population Management at the Grass-Roots Levels (Proposed)." All local authorities must scientifically and rationally draw up their own population plans in the light of the population plans handed down by the state and in the light of their local conditions. Birth plans at the grass-roots levels must be made public and put under the supervision of the masses.

25. We must conscientiously implement the "PRC Statistics Law" and the "Rules for the Implementation of Birth Control Statistics Work." Efforts must be made to strengthen the ranks of statistical personnel at various levels, and effective measures must be adopted to ensure the quality of statistics on population and birth control. Under-reporting and false reporting are strictly prohibited, and failure to report must be prevented. It is also necessary to strengthen the qualitative assessment of statistical figures, do a good job of making a comprehensive analysis of statistical data and related information, and give full scope to the role of statistics work as a means of information, consultation, and supervision.

26. We must gradually establish a nationwide management information system for family planning, and raise the management and service levels of family planning. A birth control information transmission network that

covers all competent departments (except in individual areas) at and above the county level should be established by the year 2000. The management of information on women of childbearing age and on family planning should be computerized in the majority of counties.

27. Financial departments at various levels must see to it that family planning work is allocated the necessary funds. Input into family planning by financial departments at various levels should reach two yuan per capita by the end of the Eighth Five-Year Plan. During the Ninth Five-Year Plan, they must continue to increase the input on the existing basis. A given proportion of the funds raised by the township authorities must be spent on family planning. Efforts must also be made to secure assistance from the United Nations and other international organizations.

28. It is necessary to properly manage and use funding for family planning. More assistance should be given to the old base areas, minority nationality areas, border areas, and poor areas. We must also conscientiously implement the "Procedures for the Management of Funds for Family Planning," make sure that they are collected in a reasonable way, properly managed, and appropriately spent, and see to it that all fines for non-planned births are spent on birth control.

29. It is necessary to speed up the building of family planning service networks. Departments of planning at all levels must incorporate capital construction for birth control purposes into the capital construction plan of the state. By the end of the Eighth Five-Year Plan, the overwhelming majority of counties and suburbs in the country should have their own family planning service stations. During the Ninth Five-Year Plan, these must be further consolidated, improved, and brought to a higher standard. Family planning service stations and rooms in townships and villages should be built in a manner appropriate to local conditions. In the case of family planning service organs already completed, it is necessary to improve the quality of their staff, raise the quality of service, strengthen institutional development, and bring their comprehensive service functions into play.

30. It is necessary to ensure the supply of birth control medicine and implements by strengthening and improving the supply networks. We must properly organize the production of contraceptive drugs and implements. Positive efforts must be made to promote reform of the management of birth control drugs and implements, and gradually expand their retailing in cities and in economically developed areas to satisfy the needs of people of childbearing age, while concentrating resources on strengthening the building of supply networks in the rural areas, particularly the remote and poor areas, and ensuring their free supply in these areas.

IX. Strengthen the Ranks of Birth Control Workers and Improve the Quality of Cadres

31. We must conscientiously do a good job of the organization and building of birth control departments

at various levels, reinforce these departments with competent cadres, and strive to build a contingent of birth control cadres who are dedicated to their work, who have a good grasp of policies and management expertise, and who are good at doing work among the masses. This contingent must have a reasonable professional and age structure. Governments at all levels must show concern for and cherish their birth control cadres and workers, commend those advanced units and exemplary models who excel in their work, and effectively solve their problems of work and livelihood.

32. Townships, neighborhoods, factories and mines, as well as enterprises and institutions must be assigned the necessary full- or part-time cadres, and proper arrangements must be made regarding their remuneration and benefits.

33. It is necessary to strengthen the training of birth-control cadres at all levels. In addition to conducting special short courses and paying attention to continuing education, we must see to it that all full-time workers in birth-control units receive systematic on-the-job training once during the Ninth Five-Year Plan to raise their ideological and professional quality.

34. We must make positive efforts to develop special education on population and birth control, and incorporate these in state and local education plans. We must strive to develop a special education system for population and birth control which is of a considerable scale and which has a reasonable structure and distribution, and train, for the cause of population and birth control, a contingent of special technical personnel who are well-trained and who can meet the requirements of the work.

X. Strengthen Leadership, Approach the Task in a Comprehensive Manner

35. We must conscientiously implement and improve on the goal-oriented management system for population and birth-control work. The number-one person of the government and party at all levels must personally grasp and assume overall responsibility for family planning work, and establish and strengthen population and family planning leadership groups to coordinate the departments and parties concerned to do a good job of family planning. It is necessary to establish a scientific system of responsibility and goals as well as methods of appraisal and assessment to guide the healthy development of family planning. Enterprises must practice a system of birth control responsibility, with the corporate representative assuming overall responsibility.

36. Adopting a variety of means, governments at all levels must organize the vast numbers of party members and cadres, particularly leading cadres at and above the county level, to conscientiously study Marxist theory on population as well as knowledge of population and birth control, and guide them to firmly embrace an awareness of the need to understand the population issue and an understanding of the per-capita concept, as well as the

concept of coordination between population planning, economic and social development, environmental protection, and the utilization of resources. Organization and personnel departments at all levels must take birth-control work as an important aspect in the assessment of the performance of leading cadres at all levels. It is necessary to establish the necessary punishment and reward systems. Those who do well in birth-control work must be rewarded, and those who are guilty of serious dereliction of duty must be punished.

37. The whole society must pay attention to and support birth control, and take the implementation of the basic national policy of birth control as their unshirkable task. Policies, laws, and regulations relating to social welfare, labor and employment, and other aspects, drawn up by various departments, must be conducive to the encouragement of late marriage and childbearing as well as fewer and better births. All local authorities and departments must conscientiously discharge their duties in birth control work under the unified leadership of the government and the people's congresses, bring their strong points into play, draw up feasible measures, and make concerted efforts to do a good job of family planning.

38. We must extensively and deeply unfold propaganda on the "Marriage Law," popularize pre-marriage education, strengthen marriage registration and management in accordance with the "Marriage Registration and Management Regulations," and prevent early marriage and childbirth and births outside wedlock. Great efforts must be made to publicize the "Law on the Protection of the Rights and Interests of Women," to safeguard the legitimate rights of women in education, employment, participation in social activities, marriage and family life, and other activities, to continuously enhance women's status, and to encourage the broad masses of women to devote themselves to the socialist modernization drive. Positive efforts must be made to do a good job of maternity and child care, prenatal and postnatal care, and better upbringing, to continuously raise the health levels of women, infants, and young children, and to eliminate the phenomenon of abandoning or drowning baby girls. It is also necessary to gradually establish a social security system and put it on a sound basis. Family planning insurance and old-age insurance should be promoted, and the unified control of women's childbirth funds by the community may be tried out in cities. The fight against poverty and birth control must be combined. While helping the impoverished areas develop their economies, it is also necessary to help them draw up population development plans and do a good job of family planning.

39. In keeping with the new situation of reform and opening up and the establishment of the socialist market economy, we must strive to combine birth control work with the development of the economy, with efforts to help the masses to achieve a relatively comfortable standard of living through hard work, and with the building of cultured and happy families, continuously

deepen the reform of birth control work, and promote better coordination between population planning and economic and social development, the utilization of resources, and environmental protection.

40. It is necessary to strengthen friendly cooperation with international organizations and foreign governments, absorb the advanced experience of other countries, and import their advanced technologies to raise the standards of birth control work in our country. It is also necessary to do a better job of overseas propaganda. We must, through various propaganda media, actively take the initiative to introduce to the international community our achievements and experience in practicing birth control, and in promoting better coordination between population planning and economic and social development, the utilization of resources, and environmental protection.

Family Planning Among Shifting Population 'Major Task'

OW2203171295 Beijing XINHUA in English 1400
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Family planning among shifting population will be a major task for birth control in the coming years, a national conference on family planning was told Tuesday [21 March].

The vice-minister of the State Family Planning Commission, Zhang Weiqing, made the remark in a report he delivered at the conference attended by family planning officials from around the nation.

With the growing economic activities of the past several years, large numbers of temporary residents have begun to gather in almost every major Chinese city. Because they are often beyond the reach of authorities both back home and in their new location, government family planning measures are likely to have little effect on them.

Public safety officials estimate that the "floating population" nationwide now stands at about 80 million, but some demographers argue that the figure may exceed 100 million.

One alarming fact is that the percentage of women of child-bearing age is often much higher in the floating population than in the population as a whole. A survey done in Shanghai in 1993, showed that the number of cases of persons ignoring family planning rules among the city's temporary residents was 13 times that among ordinary citizens.

The government's concern about the matter is best expressed by Premier Li Peng's government work report to the recent third session of the Eighth National People's Congress, in which the premier said that the nation's family planning efforts should concentrate on farmers and the floating population.

During the three-day meeting, family planning officials from Guangdong Province explained the methods of

birth control that they use with the floating population to their colleagues from across the nation.

A suggestion was made at the conference that the present rules in family planning among the floating population be revised, and that co-ordinating groups in provinces be formed to deal with the matter.

Bureau To Help Muslims Going to Mecca

HK2203094095 Beijing CHINA DAILY in English
21 Mar 95 p 1

[By Sun Shangwu: "Muslims Get Help With Mecca Plans"]

[FBIS Transcribed Text] The Islamic Section of the Bureau of Religious Affairs will continue to provide logistical assistance to the growing number of Muslims wishing to make pilgrimages to Mecca.

Thanks to rising living standards in China, more of the country's Muslims are able to afford the modern-day expenses of the ancient spiritual journey to the sacred Saudi Arabian city.

Some 5,000 Chinese Muslims travelled to Mecca at their own expense in 1993, and last year the number increased to 6,000.

"The number this year will not be less than 6,000," said an official with the bureau's Islamic Affairs Section, which is under the State Council.

The bureau, along with the China Islamic Association, has helped some Muslims travel to Mecca at their own expense by making arrangements for their transportation and accommodation.

"The relevant departments all give their full support to our work," said the official.

Though there is no direct air link between China and Saudi Arabia, Air China offers charter flights for organized groups of Muslims planning to visit Mecca.

And this year, China Northwestern Airlines also will offer charter services for Muslim pilgrims.

Both airlines will have flights from Beijing and Urumqi, capital of the Xinjiang Uygur Autonomous Region. The first flights from Beijing will begin in April.

Many of China's Muslims are farmers who have only a rudimentary knowledge of the Islamic religion and culture, so the China Islamic Association is helping them become better acquainted with their religion. For starters, it has compiled a handbook of religious etiquette to help them in their religious training.

And on the materialistic end of the spectrum, the Bank of China and the State Administration of Exchange Control also help Muslims change their money into foreign currency every year.

This year, each Muslim going to Mecca will be able to change \$800 worth of money. The total amount of exchange is expected to reach a record of more than \$1 million this year.

Ten of China's ethnic minority groups are predominantly Muslim. They are the ethnic Hui, Uyghur, Kazakh, Uzbek, Kirgiz, Tajik, Tatar, Bonan, Dongxiang, and Salar groups.

Muslims in the Xinjiang Uyghur Autonomous Region account for more than half of the country's total.

Preferential Policies for Ethnic Areas To Continue

HK2303071295 Beijing ZHONGGUO XINWEN SHE
in English 1119 GMT 22 Mar 95

[FBIS Transcribed Text] Shanghai, March 22 (CNS)—China has in recent years highly valued economic construction in minority nationalities regions and fruitful achievements have been acquired, according to a conference on minority nationalities across China held in Shanghai today.

Five autonomous regions together with Yunnan, Guizhou and Qinghai realized RMB [Renminbi] 390 billion of the gross national product (GNP) in 1994 or 10.4 percent up over 1993 based on constant price. They achieved a bumper harvest even though natural disasters caused serious ill effects on farming and husbandry industries. Industrial production in these regions continues to grow and the gross industrial output value accumulated at the township and above level in the ethnic minorities regions was put at RMB 300 billion or a gain of 12 percent over the same period in 1993. Items of key construction proceeded smooth and the year round fixed asset investment was valued RMB 150 billion in these regions, 24 percent up over 1993.

China will continue preferential policies as they have been implemented in the minority nationalities regions. During the current Eighth Five-Year Plan period the Ministry of Finance will increase the development fund to RMB 300 million specially for economically underdeveloped regions while at the same time earmarking a total of RMB 100 million for four consecutive years into the poverty relief fund for the minorities nationalities. Capital calculated on discount interest which was offered for production of daily articles or township enterprises in ethnic minorities regions was valued at some RMB 20 million in the last three years. The clothing and food fund for the minority nationalities regions set up in People's Bank of China has shown an accumulated reserve of RMB 90 million.

Industrial Administration Issues Rules on Receptions

SK2303042195 Beijing XINHUA Domestic Service in Chinese 0938 GMT 22 Mar 95

[By reporter Fu Gang (4902 0474)]

[FBIS Translated Text] Beijing, 22 March (XINHUA)—A few days ago, the State Administration of Industry and Commerce issued the "regulation that industrial and commercial administrative and managerial personnel must not accept invitations to receptions that may affect the fair execution of public affairs" and the "regulation that industrial and commercial administrative and managerial personnel must not participate in recreational activities at public places of entertainment with public funds" as well as the "methods for handling those who violate the two regulations".

The regulation on banning attendance at receptions states: Industrial and commercial administrative and managerial personnel must not accept invitations to receptions from their subordinates (including units and individuals); from those who are undergoing investigation and are thought to have violated economic laws and regulations and seriously sabotaged the interests of consumers (including units and individuals); from any units who need their registrations, annual evaluations, trademark registrations, and advertisement management activities approved or who need to express their thanks; from individually-owned industrial and commercial households for arrangements of stalls and applications for licenses or in the form of expressing thanks; and from parties involved in cases of dispute. Industrial and commercial administrative and managerial personnel must not take chances by accepting invitations to receptions when handling public affairs at management units. The lower units must not exceed the local stipulated reception standards while receiving the working personnel of higher-level organs.

The regulation on banning the recreations with public funds states: The industrial and commercial administrative and managerial personnel are not allowed to accept the invitations by any units and those whom they manage, investigate, and handle; to participate in recreational activities at public places of entertainment (such as singing rooms, dance halls, and night clubs) with public funds; to use public funds to organize celebrations or recreational activities at public places of entertainment; or to use public funds to organize recreational activities for working personnel of higher-level organizations. The working personnel of higher-level organizations must not get or ask lower-level units to arrange recreational activities with public funds.

Methods for handling the violators stipulate: Those who violate regulations for the first time must be criticized and educated by units, write self-criticisms, and also reimburse the expenses they used for receptions and entertainments. Those who violate the regulations twice must accept the penalty of having their bonuses withheld for three months, be temporarily relieved of their posts for examination, and also be reassigned posts. Those who violate the regulations for the third time must be punished according to party discipline and administrative discipline, and those whose cases are serious should be removed from their posts.

More Flexibility With Classified Information Urged

HK2303085895 Beijing CHINA DAILY in English
23 Mar 95 p 2

[By He Jun: "Secrecy Is Under Review in the Nation"]

[FBIS Transcribed Text] China should adopt a more flexible method of dealing with classified information as it deepens its reform and opening, said Cheng Minghe, an official with the State Science and Technology Commission (SSTC).

As for technologies which no longer require secrecy, restrictions can be lifted in a timely manner, he added.

Meanwhile he stressed the importance of currently classified science and technology information to the country's development.

Competition in scientific fields is becoming increasingly important, as countries worldwide shift their focus from military to economic competition in the post-Cold War era, he said.

The country must find an effective method of keeping scientific secrets that have great influence on the country's economic progress and national defence, in the face of all types of international exchanges, he said.

As technology expands and changes in today's fast-paced world, timely management is important for maximizing the benefits of advanced technology in the country's economic development, he said.

SSTC and the State Secrecy Bureau jointly published "Regulations on Protecting Scientific and Technological Secrets" earlier this year, aimed at accomplishing both these goals.

The regulations give detailed rules on classifying, terminating, and protecting such secrets.

Technologies that may be defined as classified state information cover many areas, such as agriculture and industry, as well as national defence.

The SSTC will organize experts in all fields to examine the list of classified state technologies and update it annually, Cheng said.

Last year, expert groups examined all classified technologies since 1949 and only about 10 per cent of them were included in the updated list based on the new rules.

SSTC is also studying possible measures to compensate the developers of technologies listed as State secrets for their lost sales due to state restrictions, he added.

Foreign Law Firms Receive Approval To Open Offices

HK2303090395 Beijing CHINA DAILY in English
23 Mar 95 p 1

[By Xiao Ma and Liu Tong: "Law Firms To Court Chinese Customers"]

[FBIS Transcribed Text] Sixteen overseas law firms have gained the approval of the Chinese Ministry of Justice to establish offices in China.

They will set up seven offices in Beijing, five in Shanghai, three in Guangzhou, and one in Suzhou.

They will join the existing 41 foreign offices in China to expand the booming legal service market, the ministry said.

But the offices are likely to concentrate on clients from joint ventures and foreign enterprises, instead of Chinese companies.

Currently foreign law firms are not permitted to handle Chinese law affairs and employ Chinese attorneys.

However, they can advise clients on laws of their country, international conventions, world trade law, and customs law.

Under the mandate of its clients or a Chinese law firm, they can also handle legal affairs of the country where the firm's lawyers are based.

Meanwhile, they can instruct a Chinese law firm to handle legal affairs in China on behalf of its clients in foreign countries.

The firms are from countries and regions including the United States, Germany, Hong Kong, Canada, Italy, Japan, Singapore, France, and Britain.

Officials say the move, a big step since the ministry introduced the practice in 1992, will help promote China's trade and legal exchanges with other countries.

The ministry estimates that of the existing firms, most are profitable but a few are losing money.

Because of the constrained business scope, the law offices posed little competition for their 6,600 Chinese counterparts.

No decision has yet been taken on whether these law offices will eventually be able to offer services on Chinese legal affairs.

Policeman Dies During Arrest of 'Criminal'

SK2303081995 Beijing XINHUA Domestic Service in Chinese 1651 GMT 21 Mar 95

[By RENMIN RIBAO reporter Mao Lei (0329 4320) and XINHUA reporter Niu Aimin (3662 1947 3046)]

[FBIS Translated Text] Beijing, 21 Mar (XINHUA)—Cui Daqing, a people's policeman of the Beijing Municipal Public Security Bureau, heroically sacrificed his life while fighting a murderer. Another people's policeman, Gan Lei, was honorarily injured. The criminal was arrested on the spot.

On 10 March, the Fengtai branch of the Beijing Municipal Public Security Bureau, investigated and handled a

case of murder following a fight among hooligans. Cui Daqing, deputy head of the Fengtai Town police substation; and Gan Lei, a people's policeman of the Liuliqiao police substation, actively asked to summon a person with knowledge about the case. About 0400 on 11 March when arriving at the home of a person called Zhao; Cui Daqing, Gan Lei, and several people's policemen found that a man and a woman there looked suspicious and ordered these two persons to go back to the police substation with them for questioning. Just at that time, the man suddenly took a pistol from his cotton-padded mattress and tried to force his way out. After hearing the other policemen's shouts, Cui Daqing and Gan Lei, who had come downstairs, immediately went upstairs and encountered the criminal on the second floor. The criminal fired the pistol hitting Cui Daqing's head and Gan Lei's left arm. The injured Gan Lei firmly held the criminal in his arms, forced the criminal down with his body, and arrested the criminal with the assistance of other policemen.

After failing to respond to all rescue measures, the seriously injured Cui Daqing heroically sacrificed his life at the age of 36.

Through investigations it was found that criminal Yu Genzhu is an extraordinarily appalling murderer, who had been listed as wanted by the public security organ. It was proven that he was involved in five cases resulting in the murder of six persons.

After the case, Luo Gan, state councillor and secretary general of the State Council, extended regards to the family members of Comrade Cui Daqing and Comrade Gan Lei. Li Qiyang, mayor of the Beijing Municipal government; Jiang Xianjin, vice minister of public security; and leaders of the Beijing Municipal Public Security Bureau and the Fengtai District party committee and government successively called on Cui Daqing's families and the hospitalized Gan Lei.

Daily Holds Forum on Primary Productive Forces

SK2303071095 Beijing XINHUA Domestic Service in Chinese 1838 GMT 22 Mar 95

[By reporter Zhuo Peirong (0587 1014 1837)]

[FBIS Translated Text] Beijing, 22 Mar (XINHUA)—On 21 March at the Great Hall of the People, RENMIN RIBAO held a forum on "Having Top Leaders Grasp the Primary Productive Forces" at which principal leaders of some ministries, commissions, provinces, municipalities, and large and medium state-owned enterprises, as well as some noted specialists, probed deeply into the subject of "how to successfully grasp the primary productive forces."

Wen Jiabao, alternate member of the Political Bureau of the CPC Central Committee and member of the Secretariat of the CPC Central Committee, submitted a written speech to the forum indicating the convocation of this forum is of great significance and will have a

far-reaching influence on the thorough implementation of Comrade Deng Xiaoping's idea on regarding science and technology as the primary productive forces and on pushing leading cadres at all levels, principal responsible comrades of party and government organizations in particular, to pay attention to strengthening scientific and technological work.

Wen Jiabao pointed out in his written speech: When grasping the primary productive forces, top leaders must pay attention to the key point of economic construction—that is, to truly orient economic construction to the orbit of depending on scientific and technological progress and of improving the quality of laborers, and to the orbit of taking the improvement of economic efficiency as the central task. To successfully grasp the primary productive forces, top leaders must pay attention to combining economic construction with science and technology, must persist in the idea that economic construction must depend itself on science and technology, and must establish a new type of system whereby science and technology are closely combined by the economy in line with the demand of developing the socialist market economy and with the law of science and technology. To successfully grasp the primary productive forces, top leaders must pay attention to translating scientific and technological research findings to practical productive forces, must persistently regard scientific and technological progress as the vital factor of various economic work, must actually resolve the conspicuous problems existing in translating scientific and technological research findings into practical productive forces, and must increase the content of science and technology in economic growth. To successfully grasp the primary productive forces, top leaders must organize and coordinate scientific and technological forces to conduct joint research for the major and key questions in production and construction of their own localities and departments; must expedite the cooperation of scientific research institutes and institutions of higher learning with enterprises, and support the integration between technology development and research institutes and large enterprises; and must establish an agricultural service system and agricultural production system whereby markets are linked with science and technology as well as production, with science and technology as the pillar. To successfully grasp the primary productive forces, top leaders must advocate the social practice of respecting knowledge and professional talents; must mobilize the initiative and creativity of the numerous scientific and technological personnel; must attach importance to the training of professionals; must implement the policy of letting a hundred flowers blossom and a hundred schools of thought contend; must carry forward academic democracy; and must create a fine environment in which excellent professionals can show their talent. To successfully grasp the primary productive forces, top leaders must frequently listen to the views, demands, and voice of scientific and technological personnel; must help them resolve the practical problems

with regard to their work, study, and livelihood; must do more concrete things for them; and must serve as good directors of rear-service departments of scientific and technological work. The top leaders' success in grasping the primary productive forces will surely encourage the entire party and all of society to value science and technology and to expedite the development of scientific and technological undertakings as well as the entire modernization drive.

Gu Xiulian, minister of the chemical industry; Liu Jiyan, president of the Chinese General Company of Astronautics Industry; Zhou Guangzhao, president of the Chinese Academy of Sciences; Gao Lulin, president of the Chinese Patent Bureau; Luo Bingsheng, president of the Shoudu Iron and Steel Company; and Zhou Mingtao, chairman of the Beijing Xiwang Computer Corporation, made speeches at the forum one after another. They expressed their opinions on how to grasp scientific and technological work, including how to help translate the primary productive forces into practical productive forces, how to accelerate the training of trans-century scientific and technological professionals, and how to accelerate the technological progress of enterprises in combination with the efforts of transforming operational mechanism. Shao Huaze, director of RENMIN RIBAO, presided over the forum.

It is reported that RENMIN RIBAO will begin a special column in the near future to continuously discuss the subject of "having top leaders successfully grasp the primary productive forces." Thus far, 20 top leaders of provinces, autonomous regions, municipalities, and pertinent ministries and commissions under the State Council have wrote articles for discussion.

SAIC Campaign To Improve Advertising Control

OW2203144495 Beijing XINHUA in English 1257
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Advertisements which "violate the Advertising Law" are not to be carried by the mass media, and the advertisers, ad agents, and publishers involved in these illegal advertisements will have to face charges for their wrongdoing.

The explanation for this campaign, whose goal is the improvement of controls on the rapidly growing and problematic advertising industry, comes from the State Administration for Industry and Commerce (SAIC).

The ban mainly applies to advertisements for medicines, medical apparatuses, food, and cosmetics, which may exaggerate the product's effectiveness, make Unscientific claims, or otherwise distort.

Drug ads, for example, are asked to refrain from using images of, or quotes from, doctors and patients, or making ambiguous grand-sounding claims, such as "new state-level medicine".

Food and cosmetics advertisements should not use medical terminology or descriptions of medical function lest the consumer confuse them with a medicine advertisement.

Advertisements for medicines which are produced without official approval are also prohibited, for the same reason, that they may mislead the public, cause physical or emotional damage to people, or engage in unfair competition by slandering rivals.

China's advertising industry has seen rapid development since China introduced the reforms and opening-up policies, but the industry has given rise to a range of problems, such as false advertising, inferior quality, and sub-standard advertising practices.

In a bid to reinforce legal safeguards in the industry, the National People's Congress, China's top legislature, passed the "Advertisement Law" last year, which took effect on February 1 this year.

*Article Cites Deng on Political Reform

95CM0117a Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 25, 15 Dec 94 pp 32-33

[Article by Liu Rongrong (0491 2837): "Political Structural Reform Must Be Coordinated With Economic Structural Reform"—No. 26 of series "Learning How To Build Chinese-Style Socialism" by Central Friendly Study Group]

[FBIS Translated Text] While vigorously building a socialist market economic system, we must pay great attention to the building of a socialist democratic political system.

Coordinating political and economic structural reforms to make them support and complement each other is an important content of Comrade Deng Xiaoping's theory on building Chinese-style socialism. Comrade Deng Xiaoping's theory of socialist reform clearly includes economic and political structural reforms and considers political structural reform not any less important than economic structural reform. As economic structural reform deepened and political structural reform lagged behind in certain areas, the problem of incompatibility between economic and political structural reforms became even more prominent. Comrade Deng Xiaoping promptly summed up and studied the new situations and problems, reviewed previous experiences and lessons, and pointed out in more profound and fundamental language the urgency of political structural reform. He said: "With each step we take in the economic structural reform, we feel more need for political structural reform. Without political structural reform, the achievements of economic structural reform cannot be secured, economic structural reform cannot continue to progress, development of productive forces will be hindered, and the fulfillment of the four modernizations will be delayed."

He emphasized: "Reform should include political structural reform which should be considered as a progress of reform." (*Selected Works*, Vol 3, pp 160, 176)

Comrade Deng Xiaoping not only pointed out the need to pay attention to political structural reform and to synchronize political and economic structural reforms, but he also emphasized the need to coordinate political and economic structural reforms. In other words, our political structural reform must also be subordinate to and serve the cause of building Chinese-style socialism. It must be conducive to the consolidation of party leadership, reform of the economic system, economic development, and social progress. This demands that our political structural reform proceed from the current national condition of China and the reality that a fairly long period of our history is in the preliminary stage of socialism.

This inevitably raises two interdependent issues: First, we need to keep socialist advantages, develop socialist democracy, and further improve the established basic political systems such as the people's congress system, multiparty cooperation, the political consultation system led by the CPC, and the democratic centralization system. We must not blindly worship Western democracy. This type of improvement and perfection is also considered reform. Second, we need to resolutely reform the low-efficiency, rigid bureaucratic system which reduces the vitality of the party and state, dampens the enthusiasm of grass-roots units, workers, peasants, and intellectuals, and hinders progress and reform. Comrade Deng Xiaoping particularly pointed out that the biggest drawback of existing political system, or its incompatibility with the socialist market economic system, is demonstrated mainly as two problems: One is bureaucracy and the lack of enthusiasm among the people; the other is the lack of the mechanism of supersession of the old by the new in the political system. We must not deny the objective existence of drawbacks of the basic political system of socialist democracy because of its compatibility with a socialist economic system. We must tighten the reform in a focused manner. What we have been doing, such as streamlining administration and replacing old cadres with younger ones, all serve this very purpose.

After stressing the urgency of political structural reform and drafting a blueprint for it, Comrade Deng Xiaoping said that we must combine "stepping up efforts" with "caution" when placing the political structural reform on the agenda. He emphasized:

- We must fully understand the complexity of political structural reform. Comrade Deng Xiaoping repeatedly pointed out that the issue of political structural reform "is very difficult. Every reform will involve many people and very profound issues. It will affect many people's interests and have many obstacles. It needs to be handled with circumspection." (*Ibid.*)
- To place political structural reform on the agenda, we should "conduct investigations and studies to sort out

the problems and adopt some ideas before we proceed." We should conduct thorough investigation and study to "first clarify the scope of political structural reform and make sure where we should start. We should begin by handling one or two issues. We must not try to do everything all at the same time. There will be chaos." We should consider it as a process. "Some areas may see results in three to five years, other areas may need 10 or more years before they can see any results." We must not be impatient. Haste only makes waste. (*Op. cit.*, pp 164, 263)

- We should take into consideration of various factors in China's history and reality, distinguish situations, and proceed in a guided and planned manner. "China is such a large country with such a large population. In addition, regional differences are so great and there are so many different nationalities. Conditions are not ripe for direct election at the higher levels. The first problem is a low educational level." "We must never practice great democracy like the "Great Cultural Revolution." (*Op. cit.*, p 242)
- We should keep our advantages. Comrade Deng Xiaoping said: "The biggest advantage of socialist country is that once a decision is made to do something, it will be done without hold ups... This is our advantage. We should keep it and guarantee the superiority of socialism." (*Op. cit.*, p 240)
- We should sum up experiences and study the issue of reform in a timely manner. When Comrade Deng Xiaoping talked about reform, he always emphasized the need to boldly experiment and sum up experiences in a timely manner so that we can uphold what is right and correct what is wrong.

***Article Urges Democratic Centralism for Enterprises**

95CM0167A Zhengzhou LINGDAO KEXUE
[LEADERSHIP SCIENCE] in Chinese No 1, 11 Jan 95
pp 33-34

[Article by Wu Yuanping (2976 0954 5493), Organizational Department, Yichun Prefectural Party Committee, Jiangsu Province; edited by Sun Shen (1327 3947): "The Factory Director/Manager Responsibility System Must Not Replace the System of Democratic Centralism"]

[FBIS Translated Text] Editor's Note: On an investigation of several large and medium-sized enterprises in Liaoning Province, a reporter of the ZHONGGUO QINGNIAN BAO heard workers and technical staff express the opinion that failures of factory operations had not been due to competition, but rather due to the incompetence of decision-making personnel. This raises the question whether it is necessary to implement the principle of democratic centralism after having instituted the factory director/manager responsibility system, and to effect in this way an organic integration of the

two, thereby achieving a scientific and democratic decision-making process in enterprises. This issue is presented here so that everyone can think about question. [end editor's note]

Democratic centralism is the fundamental organizational and leadership principle of the party. The principle of democratic centralism must be implemented wherever there is party organization; this must never be in question. However, this very fact seems to have been given insufficient attention in the enterprises. Some have even assumed that democratic centralism must be emphasized only in the case of party and government organs, and that enterprises, as economic organizations, have their own characteristics, and that what is solely required of them, with the fast tempo and high efficiency demanded by a market economy, is the factory director/manager responsibility system. Some of them said democratic centralism is impeding initiative and adversely affecting the revitalization of enterprises. As a consequence, democratic centralism has degenerated in some enterprises into mere formalism, or it exists in name only, as it was in actual fact completely replaced by the factory director/manager responsibility system. I believe this is a completely inaccurate and extremely harmful view and method.

It is beyond doubt that China's reform and opening to the outside world and the developing socialist market economy demand of necessity the institution of the factory director/manager responsibility system for enterprises. Even if there are some differences in the decision-making processes and methods between the administrative leadership team in enterprises implementing the factory director/manager responsibility system and the leadership team of the party committees, the principle of democratic centralism must never be cast aside. This is so because the system of democratic centralism is the fundamental organizational and leadership system of party and state. The "Resolution" of the Fourth Plenary Session pointed out: "The system of democratic centralism is a scientific, rational, and efficient system; it enables realization of the fundamental interests and aspirations of the masses; it enables implementation of the political line, guiding principles, and policies of the party; and it enables immediate correction of errors that may occur." A market economy is one of fair competition, and fairness depends on democracy. Development of a market economy and deepening enterprise reform realize the very fundamental interests of the masses. Development of a socialist market economy is in urgent need of democracy, science, and prompt policy decisions, and of maintaining full control of the initiative in the fast changing market competition. It requires raising enthusiasm among all sectors within enterprises and bringing the enthusiasm and creativity of the entire body of staff and workers fully into play. It also requires a well-developed system of supervision and restraints to regulate the conduct of the enterprise leadership to have them exercise their powers within the scope of all the various laws and regulations. It is precisely the system of

democratic centralism that provides a most rational and effective system to meet all these demands. Only by firmly upholding the system of democratic centralism and by promoting the correct views and propositions of democracy and centralism will it be possible to arouse everyone's enthusiasm, ensure a more effective performance of duties by factory directors, and continuously raise the economic effectiveness of enterprises. It is therefore imperative to uphold unwaveringly the principle, the spirit, and the fundamental methods of democratic centralism in enterprises.

It is not only a matter of special theoretical significance to more strongly insist on democratic centralism in enterprises, but it is also realistically of a certain urgency. With intensified enterprise reform, enterprise leadership has an increasingly broader field of managerial action, and in the course of time some members of the enterprise leadership, who lack self-restraint and who are weak in ideological and political respects, will take the "factory director/manager responsibility system" as a pretext to have matters decided by themselves as single individual persons, to assume a conceited self-centered attitude, to make arbitrary decisions and take peremptory actions, to practice favoritism in their appointments, to gang together and form factions, to pursue lives of pleasure, to wantonly squander money, and to engage in extravagance and wastefulness, and they will also maliciously violate the democratic rights of staff and workers. The result will be that they not only cause the loss of much state property and heavy losses to the enterprises, but that they will also seriously dampen the enthusiasm of the numerous staff and workers, with the consequence that there will be no joint effort in adversity, and that it will become impossible for them to extricate themselves from their predicaments. In many cases the data indicate that state-owned enterprises have turned unprofitable after having been profitable operations before, mainly because of the inadequate quality of the factory directors/managers, and particularly in the last two years, cases of decadent behavior of members of the enterprise leadership have increased, some having abused their powers of office, engaged in graft, and accepted bribes. A major cause for all these misdeeds is that all these enterprises did not effectively persist in the system of democratic centralism. The many painful lessons learned in this respect tell us that implementing the system of democratic centralism will not allow the enterprises to become "special zones," and that practicing the factory director/manager responsibility system cannot replace the system of democratic centralism. Setting up enterprises according to a modern enterprise system must accept staff and worker participation on a broad scale as a major component of the modern system of enterprise management.

Practice has shown that upholding and perfecting the system of democratic centralism does not at all conflict with the need to safeguard the "central" position of the factory director/manager in the business operations and administration of the enterprises, nor does it conflict

with having the factory director/manager exercise according to law the powers granted to him by the various laws and regulations. Imposing necessary restraints on the powers of the factory director/manager is in actual fact showing genuine solicitude for all who have to exercise management. It must be borne in mind that unsupervised power is bound to lead to decadence. The reason many enterprise leaders went astray, committed crimes, and came to harm is the indiscriminate abuse of their powers. The system of democratic centralism is precisely a necessary way for an effective supervision of party cadres. Comrade Deng Xiaoping once said: "The various errors that have occurred in our past were undoubtedly related to ideology and work style of some of our leaders, but they were even more importantly problems of the organizational and work systems." A famous economist once pointed out: Major and fundamental causes for the decadent state of the enterprises are the defects of the system, i.e. the defects in the system during the transition to a market economy. With these system-related defects and in this kind of an organizational environment even persons of the highest level of integrity could quite easily degenerate and become corrupt, become prisoners of decadence and act accordingly. It is therefore necessary for us to attach a high degree of importance to having the enterprises more effectively adhere to the system of democratic centralism, so that the system itself will ensure healthy progress in enterprise reform. Special attention must be given to the integration of the special characteristics of enterprises and their developmental needs, and we must seek a new mechanism which, under the conditions of market economy, will, on the one hand, cede powers to the factory directors/managers and also, on the other hand, put in place a system of necessary supervision. To be sure, the nature of work in enterprises having instituted the factory director/manager responsibility system differs, and they differ in certain respects from party and government organs, namely by allowing enterprise leaders to assume the risks of the enterprises concerned and also responsibility for own profits and losses, and to enjoy autonomy in business operations. However, that does not mean at all that in all affairs only one person's decision shall count, especially where important issues are at stake, and there is no reason whatsoever that the subjective arbitrary decisions by one person or his perfunctory policy decisions shall be allowed to be decisive. Even though a market economy repudiates any direct and wilful administrative interferences, anyone's power must submit to restraints. Especially in the case of party members, the "Resolution" clearly points out: "Whatever the position you are engaged in and whatever leadership tasks you have to perform, party discipline must always be strictly observed and supervision by the party organization and by the masses must be consciously accepted." We may point to this fact as one of the characteristic factors by which China's socialist modern enterprise system differs from the capitalist enterprise system.

Party organizations in enterprises are perfectly justified in assuming responsibility for resolutely implementing democratic centralism in enterprises. There is need for a more intensive education in democratic centralism, and regular studies will be organized for party members and enterprise executives. They must acquire a thorough knowledge of the fundamentals of democratic centralism, and party members, particularly those in enterprise leadership positions, must attain a heightened consciousness of implementing the system of democratic centralism. We must supervise and urge all those in charge of enterprise operations to conduct all affairs as demanded by the fundamental spirit of the system of democratic centralism, and according to the principles of democratic policy decisions, democratic management, and democratic supervision. We must, at the same time, integrate enterprise characteristics with a further establishment of a sound and effective supervisory and restraining mechanism. On the one hand, party organizations in enterprises should truly assert their role as political core, exercise their function of ensuring supervision, and have every single party member in the enterprise, especially those in administrative leadership positions, submit to the control of the various party institutions and submit to supervision by the party organization and by the masses. On the other hand, we must ensure actual implementation of all the provisions of the "Enterprise Law" and the "Trade Union Law," as they deal with factory directors and enterprise managers and the discharge of their functions and powers and as they deal with the exercise of supervision. Enterprise leaders must be guided so that they act in accordance with policy, laws, and regulations in the employment of personnel, in the hiring of workers, in distributions, and in making other important policy decisions on business operations; democratic management, democratic policy decisions, and democratic supervision must be fully implemented. Party organizations and relevant departments at the higher administrative levels must also intensify their inspections and supervision in these various respects, and must take immediate action and institute redress whenever violations of law occur.

In sum, we must regard this matter of having the enterprises uphold and perfect the system of democratic centralism not merely as a problem of general work methods and leadership methods, but rather as a matter that must be afforded due recognition as a major issue, having a bearing on deepening enterprise reform, on strengthening vitality and efficiency, and on the rise or decline, success or failure of enterprises, as a matter of a high degree of importance, and as an issue that must under no circumstances be treated lightly.

***Cadre, Enterprise Corruption in Beijing Viewed**

95CM0117b Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 1, 5 Jan 95 pp 35-37

[Report by the Beijing Municipal Political Consultative Society and Judicial Committee, the Beijing Municipal

Committee of the Kuomintang Revolutionary Committee, and the Beijing Municipal Committee for Discipline Inspection and Research: "Strengthen Anticorruption Measures in Accordance With Characteristics of Offenses"]

[FBIS Translated Text] Between May and August of 1994, the Beijing Municipal Political Consultative Society and Judicial Committee, the Beijing Municipal Committee of the Kuomintang Revolutionary Committee, and the Beijing Municipal Committee for Discipline Inspection and Research organized a joint investigation group to investigate and study the characteristics, causes, and preventive measures of major cases which had occurred in nine units of Beijing Municipality: Tong County, Changping County, Chaoyang District, Haidian District, the Beijing Municipal Foreign Trade and Economic Department, the Beijing Municipal Financial Department, the Beijing Municipal Administration of Machinery Industry, the Beijing Municipal Headquarters of Building Materials Group, the Headquarters of the Capital Iron and Steel Company.

Characteristics of Corruption Cases Occurred in the Above Nine Units

In recent years certain corruption cases occurred in all of the above-mentioned nine units. Their major characteristics are demonstrated as follows:

1. There is a large percentage of economic cases, especially graft and bribery. Between 1992 and the first half of 1994, a total of 431 cases occurred. Of these, 233 were economic cases, accounting for 54 percent. Of these, 83 involved graft and 89 involved bribery. Graft and bribery cases totalled 172, accounting for 40 percent of all cases. In recent years most units witnessed a clear rise in the number of economic cases. Since 1987, the Beijing Municipal Department of Foreign Trade and Economic Relations has investigated and handled 70 economic cases. Of them, 58 percent are graft and bribery cases. The number of major cases and the amount of money involved in these cases have been increasing.

2. Organized economic crimes have occurred. The Beijing Municipal Administration of Machinery Industry filed 23 economic cases in 1992, and four of them, or 17.4 percent, had the distinctive characteristics of organized crime and implicated more than 50 cadres and people. Tong County also had several collaborative cases. Most principal offenders are cadres at the management level of enterprise, such as operational supervisors, deputy factory directors, warehouse managers, and cadres at marketing departments.

They collaborate with and cover up for each other and use various means to commit crimes.

3. Cases occurred mainly in areas where there is authority and where money and materials are being controlled. As far as enterprises are concerned, most cases are committed by cadres at the management level.

The percentage of occurrence is higher in such department as accounting, savings, labor, three-production service, supply and marketing, and management. They use the materials under their control to seek personal gain and take advantage of reform and the fact that the legal system, rules and regulations, and management work have not been perfected for the time being to commit crimes.

4. There are more middle-aged offenders than younger ones, but the latter are beginning to catch up. Middle-aged people between ages 30 and 50 account for more than 50 percent of all offenders. There are more young offenders in the Beijing Municipal Financial Department. Fourteen offenders are under 35 years old, accounting for 70 percent of all offenders in this department, and the youngest one is only 20 years old. Some young people begin to engage in criminal activities after only a few years or even only a few months on the job.

5. The means they use to commit crimes have become harder and harder to detect and the tools they use have become more and more modernized. Some offenders collaborate with and cover up for each other within their own department, and some collaborate with people outside their departments. A few of them collaborate with people outside the country. Most principal offenders are individuals collaborating with other individuals. Those who use old connections and old clients are hard to convict even if they are discovered. Some offenders are highly educated, and they are engaged mostly in intellectual crimes. Armed with advanced protective measures, they can react quickly when they are discovered. They can contact each other in private and make up a defensive or offensive plan. Some fight with law enforcement personnel with modernized means of transportation and communication, making it increasingly difficult to crack the case.

Main Causes for the Occurrence of Corruption Cases

1. The process of transition from the old to the new system has caused chaos. China is in the stage of changing from the traditional planned economy to a socialist market economy. The influence of the old system still exists and the new system has not yet been completely established. This transitional period allows the existence of two systems, creating certain conditions for the occurrence of corruption cases. And we have failed to promptly adopt effective measures, giving criminals a golden opportunity.

2. We have failed to pay enough attention to the policy of "doing a good job in both tasks." Some people pay attention only to economic work in an effort to improve the economy. They have ignored ideological and political work and relaxed their efforts to enhance party spirit and political honesty. Due to weak ideological work, some people have adopted a one-sided erroneous view and begun to think that "everything is oriented toward money."

For instance, induced by the principle of exchange of equal value in a market economy, some people use power as a commodity to exchange for material interests. The openness of the market economy has increased the opportunity of corrosive influence by decadent capitalist ideas and life styles, causing some people to seek ease and comfort, to allow their ideas to deteriorate and their revolutionary will power to weaken, to emphasize only money, to fail to properly handle their authority, and to use their power to seek personal gain. Some old comrades think that since they are going to retire, they have nothing to lose and there will be no chance to do anything after retirement. Some young people idle away their time in pleasure-seeking and fail to put money in a proper position in the market economy. They try to outdo each other in dining and clothing and go in for ostentation and extravagance. Some people think that social distribution is unfair and that they want to be like those who have become rich. Seeing that some people have become millionaires, they too want to get their hands on some money. As a result, by hook or by crook, they try to seek personal gain and abuse the power the people bestowed on them.

3. Rules are not followed and legal and other systems are lagging behind. On the one hand, because people do not have a strong concept of a legal system, existing rules are not followed and violations of law are a fairly common phenomenon. The banking system has established a checking system involving cashiers and verifying personnel, but it has not been implemented strictly and conscientiously. On the other hand, because reform has progressed rapidly and new things keep cropping up, the old system can no longer meet the needs of new situations, while new regulations have not been introduced in a timely manner, creating a lawless state where people's actions cannot be restricted by law.

4. Some departments and positions have too much power, and there is no effective supervising and restricting mechanism. Some units have better vertical than horizontal restriction mechanisms. Some positions and individuals have too much power, and one person can make the decision. In contrast, the mechanism to restrict such power appears to be very weak. The Beijing Branch of the Bank of China originally stipulated that remittance of \$100,000 or more needed to be approved by the section chief and the remittance of any amount under \$100,000 can be approved and handled by verifying personnel. Li Jing, former verifying personnel of the Beijing Branch of the Bank of China, committed five offenses, and each time involved less than \$100,000, defrauding the state of \$265,000 in foreign exchange and reaping a staggering profit of 700,000 yuan. This shows that excessive power and the lack of a complete supervising and checking system have given criminals an opportunity to commit crimes.

Several Suggestions on Doing A Good Job in Anticorruption Work

Comrade Jiang Zeming pointed out: In the anticorruption struggle, we "should combat corruption while carrying out reform and carry out construction while combating corruption." We should "conscientiously sum up

experiences and lessons, block loopholes, perfect the system, strengthen management, and resolutely overcome bureaucracy." Practice has proved that to carry the anticorruption struggle through to the end, we must follow the series of strategic plans adopted by the CPC Central Committee in the anticorruption struggle and treat this problem by looking into both its root cause and symptoms. If we do not work hard on various corruption cases and handle them strictly, we will not be able to gain the trust of the people nor will we be able to deter criminals. If we are not determined to eradicate the conditions and soil for the growth of corruption, if we are not mentally prepared to fight a protracted battle, and if we are inconsistent about fighting this battle, we will not be able to carry the anticorruption struggle through to the end. For this, we suggest the following:

1. We must fully understand the importance and urgency of preventive work in the anticorruption struggle.

Fighting and preventing corruption is a long-term strategic task which cannot be accomplished overnight. Currently the surging waves of reform and the continuous occurrence of corruption cases have determined the urgency of preventive work. Leadership at all levels understand this but not in depth. They are not yet consistent and determined in this regard. To enhance understanding, we need to pay attention to the following three areas. In other words, as reform deepens, the friction between the old and the new systems will increase, and we will be required to promptly and carefully study and pinpoint the possible location of corruption in the transition of mechanisms and do a good job in prevention. We should clearly understand the dialectical relation between prevention and attack, which are both indispensable. The target of attack is limited in number and scale while prevention is oriented toward the whole party, the whole country, which is the majority and on a large scale. Prevention is the basic solution; therefore, we should concentrate our efforts on prevention and make up our mind to stop loopholes and reduce the occurrence of corruption. The effort to fight corruption and carry out construction should penetrate the whole process of reform. We must not be inconsistent and attend to one thing and lose sight of another. Only by enhancing their understanding of anticorruption and prevention can the whole party, especially leading party cadres at all levels, voluntarily make the effort to do a truly good job in the anticorruption struggle. Because of this, it is necessary to consider the anticorruption struggle as an important measure to strengthen ties between the party and the masses and between the cadres and the masses, and as an important measure to maintain social stability. We should strengthen leadership and include anticorruption in the schedule of daily work. Anticorruption and prevention should be delegated to lower levels each year as an important task with specific requirements.

2. Strengthen the restraining mechanism and education in the legal system, and use law to govern people's actions.

Since the problem of corruption is closely linked to power, it is even more imperative for us to establish and perfect rules and regulations to restrict people's actions and to use the power given to us by the people to serve the interests of the people. The lesson we learned from how a person becomes a criminal shows that the lack of effective supervision is the external condition for the occurrence of corruption cases. In the initial stage of the building of the socialist market economy, we should strengthen legal education, use various methods to publicize legal knowledge and enhance the people's legal concepts to enable them to abide by law and discipline voluntarily. We should vigorously publicize positive examples. For instance, Wang Zhenhua, secretary of the Changping Discipline Inspection Commission, enforces law impartially and is not afraid of confrontation. She is known as "female Bao Gong," and should be widely publicized. We also need to use negative examples to teach the people to understand and abide by law. As for negative examples such as Jiang Zhufeng, Guan Zhicheng, and Chen Zhiwen, we suggest that their cases be made into video cassette tapes to be played during propaganda throughout the city in order to alert the people. At the same time, we should also conscientiously strengthen supervision of party members and cadres by party and discipline inspection organizations at all levels and the supervision of the party by the people, democratic parties, and nonparty personages, and establish and perfect a supervising system that involves people inside and outside the party and that allows the higher level to supervise the lower level and the lower level to supervise the higher level.

The nine units have come up with some effective and useful practices and experiences in supervision work. The Changping County Discipline Inspection Commission insists on carrying out quarterly inspections of all units in the county to check their progress in building a corruption-free government and fulfilling their tasks. The commission also sends people to attend grass-roots meetings on democratic life and adopts various methods to solicit opinions of leading cadres from party members and the masses of people, thus exercising effective supervision. In 1990, the Tong County Party Committee and Discipline Inspection Commission began to implement step by step a countywide system under which all party and political affairs are conducted openly and revealed to the public. After several years of practice, this system has effectively stopped and overcome the occurrence of unhealthy practices such as using power to seek personal gain and other corrupt phenomena, enabling economic and other tasks to progress smoothly. The Capital Steel Company and the Building Materials Company headquarters have included the building of a corruption-free administration in the contract system. Many units insist on carrying out annual evaluations of cadres regarding their honesty and integrity and have achieved marked results in this regard. Because of this, organizational departments should clearly demand that honesty and integrity evaluation be considered as a major item in the

achievement evaluation of party members and cadres, especially those at and above the section level. Judged from the situation as a whole, we still do not have an effective supervising mechanism which involves people inside and outside the party and which allows higher and lower levels to supervise each other. It is more difficult to supervise leading cadres than to supervise general party members and masses. Because of this, it is necessary to tighten supervision and quickly establish an effective, complete supervising mechanism.

3. Strictly enforce party discipline and increase penalties for corruption cases.

Investigating and disposing of major cases is one of the three anticorruption tasks recently adopted by the CPC Central Committee. It is also an important measure for handling corruption and an important criterion for judging the success and failure of the anticorruption struggle among the people inside and outside the party. Practice has proved that doing a good job in investigating and disposing of cases can gain trust from the people. Currently Beijing Municipality has stepped up the attack in accordance with the unified plan of the central government and has achieved preliminary results. However, it should be persistent and continue to develop in depth. It should strengthen enforcement of established rules and regulations, carry out comprehensive inspection of supervising and restraining mechanisms, and revise and perfect those outdated and obsolete systems which no longer meet current needs. It should pay attention to problems in work such as insufficient force, outdated investigation methods, and inability to meet the development needs of the situation. It should adopt measures to solve these problems to ensure the smooth development of corruption case investigation and handling.

***Article Views Post-Doctorate Educational Program**

*Beijing GUANGMING RIBAO in Chinese 27 Dec 94
p 1*

[FBIS Translated Excerpt] Next year will be the tenth year of China's post-doctorate program, a system which originated in the West. [passage omitted] Since July 1985, when China's post-doctorate system came into being, through the present, China has established 299 mobile post-doctorate programs at 165 institutions of higher learning and research organizations. The courses at these centers include 47 primary courses in the eight major fields of physics, engineering, agriculture, medicine, economics, law, culture, and history. Over 3,000 new students have enrolled in post-doctorate programs throughout the nation, including nearly 600 Ph.D.'s who returned to the country from studies abroad and over 1,500 post-doctorate students who attended the centers after successfully completing their research. According to statistics, while at the centers, each post-doctorate student is on the average in charge of two to three major research topics, 40 percent of which are national-level

programs. There are presently over 400 institutions of higher learning and research units that have applied to establish centers. The ratio of Ph.D.'s at the various units applying for admission to the program to the number of new enrollees has already reached 10:1, and in some cases is even as high as 20:1. Why has China's post-doctorate system been so warmly received by institutions of higher learning and research units? Why is it so attractive to Ph.D.'s who have already earned the highest degrees?

At Qinghua University where the mobile post-doctorate program is the largest in scope in the entire nation, news reporters interviewed Yuan Jiansheng, a post-doctorate student in theoretical electrical engineering. This scholar, who earned his doctorate at China's Research Institute of Atomic Energy Sciences and worked for three years in England and Germany said: "There are major differences between Chinese and foreign post-doctorate programs. As Mr. Li Zhengdao said: In the United States and some Western European countries, any Ph.D. holder can become a post-doctorate student without finding formal work. In fact, they remain as teachers there and do temporary research. But in China, the aim of the post-doctorate program is for the state to develop and select leading academicians. Because of this, post-doctorate students must undergo competition so that the best are accepted for enrollment. Those selected can do systematic research on various leading-edge topics in a fairly optimal scientific research environment and establish a direction of long-term research for themselves. Undergoing the advanced training of the post-doctorate phase is much closer to the ideal of being a leading academician."

Yuan Jiansheng's words reveal a significant feature of China's post-doctorate system. The average age of those entering China's post-doctorate programs is 31 years. Those entering are very energetic, have a broad outlook, possess a very extensive theoretical foundation, devote themselves wholeheartedly to academics, and are at their prime for achieving positive results. As seen from the situations of over 1,300 post-doctorate students who have already completed their time at the programs, the vast majority have been appointed to high-level professional positions and many have advanced to become professors and researchers. Among them are 32 post-doctorate students who have become new Ph.D. professors, whose average age is under 40 and the youngest is 30 years old. In order to develop this highly talented resource, the state has regulated from the center the qualifications of units establishing post-doctorate programs, provided 20,000 yuan in daily expenses every year to each post-doctorate student, nearly 70 percent of the limit for post-doctorate scientific research funds. It has also formulated a series of preferential policies in areas such as bank account transfers, living expenses, and job title evaluations. These measures have allowed China's mobile post-doctorate programs to become one of the most fertile grounds in the world for developing outstanding talent. There are presently some foreign

scholars who believe that the West could learn from the Chinese way of doing things. [passage omitted]

An official from the concerned department of the Ministry of State Affairs told reporters: Those benefiting from this flow of talent include not only units like Qinghua, Beida, and the Chinese Academy of Sciences, but also units from outlying districts. For example, although the Guiyang Research Post enjoys a great reputation in foreign and domestic geological circles, it is very difficult to attract large numbers of regular research personnel because of the rough living conditions there. Because post-doctorate students have other options when they attend the programs, many talented Ph.D.'s in this field dare to apply to do post-doctorate study, which thus makes up for the inadequate scientific research force at that post. In fact, isn't the policy of allowing post-doctorate students returning from abroad to come and go freely an attractive incentive? Post-doctorate students returning from abroad generally believe that the attractiveness of the post-doctorate program is much greater for overseas Ph.D.'s than it is for domestic ones.

Professor Yang Jiaqing, head of the post-doctorate leaders team and standing assistant dean at Qinghua University, believes that the main reason the post-doctorate system was so well received was because it provided a new avenue for changing the structure of the teaching corps at institutions of higher learning formed during the past few decades.

The experiences of famous overseas universities has shown that in order to maintain a high quality teaching faculty, a fairly large portion of the professors must rotate. For example, there are only about 300 relatively full-time professors at the California Institute of Technology in the United States, and the various types of rotating professors, such as Ph.D. assistants, post-doctorate students, and visiting scholars, number just over 500. But at present the faculty of full-time professors at Qinghua University exceeds 3,000, and there is a faculty of over 800 teachers who are at differing levels of circulation. A teaching faculty can only be made excellent if it is fairly mobile. Post-doctorate students entering the program must undergo a selection process. During the two years of post-doctorate research, the schools undertake complete observation. When leaving the centers, they undergo another selection process. Those selected, of course, possess relatively outstanding talents.

Another noteworthy affect of post-doctorate programs on units establishing programs is the promotion of academic exchanges and course overlap. Because Ph.D.'s must do post-doctorate work according to the regulations of their school and their specialty, they must go to other institutions of higher learning and scientific research units or to mobile post-doctorate programs in other specialties. Among the 278 post-doctorate students who entered the program at Qinghua, 57 came from 51 institutes of higher learning in 13 different nations. The others came from 73 academies, schools, and posts

within the country. These students bring with them differing academic ideologies, research styles, and new research fields. This not only invigorates the academic atmosphere, but also expands the school's original curriculum. Only by drawing from such wide knowledge can it lead. Because of this, many persons in charge of key courses at institutions of higher learning and research units believe that in order to maintain a superior course, it is extremely important to have a post-doctorate contingent of high quality.

***Problems Confronting Private Schools Viewed**

95CM0173A Fuzhou JIAOYU PINGLUN
[EDUCATIONAL REVIEW] in Chinese No 60,
20 Dec 94 pp 22-24

[Article by Hong Ming (3163 2494); edited by Wang Huifang (3769 1970 2397): "Contributing Factors for and Existing Problems in Resurgence of China's Private Schools"]

[FBIS Translated Excerpt] [passage omitted] During the process of the swift and strong growth of private schools, many contradictions and problems have surfaced, and this article will discuss only selected outstanding ones. **There is a demand for prompt attention to strengthening theoretical research and legislative work with regard to private schools.** When private schools appeared all over China and were approved and accepted by the broad masses, it seems that educational theory circles were inadequately prepared, their reaction was slow, and they were especially weak in theoretical research on private schools. General agreement has not yet been reached on the nature, position, and role of China's private schools in the present stage. Thus, it is difficult to provide a theoretical and scientific basis for legislation on private school education. [passage omitted]

Although China's constitution clearly stipulates the authority and responsibility of the state in running all levels and all types of educational bodies and in developing academic education, this is only the legal basis for public education. The constitution's stipulations on the authority and freedom of citizen education are fairly ambiguous, and only address the obligation of citizens to be educated. It does not explain the form in which the citizens select education, their rights and interests in being educated, as well as the question of jurisdiction over the setting up of educational bodies, with the result that, in practice, it is impossible to ensure the rights and interests of those who run schools as well as private school students and their parents. In the investigative report I wrote after inspecting 104 private elementary and middle schools in seven provinces and municipalities, the Central Education and Science Department clearly pointed out: "With regard to schools run by local people, there are no laws and regulations on their position and role... examination and approval... supervision and management... so it is impossible for schools and education administration departments to make up their minds

about the actual problems they face. Even if they could do so, it would be impossible to have a legal basis, and in reality it would be impossible to get things done." At the same time, persons who are educated in private schools and their parents do not have any laws to follow for ensuring their own rights and interests. [passage omitted] **The means for aiding, regulating, and controlling private schools need to be enhanced.** In the process of developing private schools, the demands that have surfaced are fairly prominently manifested in the following situations: On the one hand, investment by forces in society and enthusiasm for education have risen. Because there is no basis in law, specific policies to encourage the running of schools are unclear. The preferential policies enjoyed by many people who invest in running schools depend on them "charging" relevant educational and governmental departments and "contending" for these policies. Disputes over trifles and getting the cold shoulder are often seen, thereby adversely affecting the enthusiasm of investors for running schools, and are disadvantageous for fully attracting society's investment in running schools. At the same time there are no standard rules in the preferential policies, and each locality and each profession goes its own way, the proper limits for handling the preferential policies are not defined well, and it is easy for errors to occur. On the other hand, because there is a lack of the necessary means of restraint. Certain investors, driven by economic interests, make use of loopholes in the imperfect policies and management systems for running schools, and turn schools into "learning shops." Their actions in seeking exorbitant profits cannot be contained, and not only is education harmed but also adverse social effects are created. [passage omitted] **The trend toward the aristocratization of private schools should be reversed as fast as possible.** Accompanying the phenomenon of high fees, there have appeared in various parts of China symptoms of a trend toward the aristocratization of a small number of private schools at the same time that this trend is manifested in high fees. At the same time, the schools do not stint at spending large sums of money in the sedulous pursuit of the material conditions for superhigh standards, and they neglect the training of their students; or in a small, closed environment, they solely pursue the goals of giving their students the reputation of being authorities and of rising head and shoulders above others. This trend has already caused widespread concern in all quarters of society. Private schools that possess the conditions for it cannot be faulted for being somewhat superior in living conditions and teaching equipment. What is important is that it must not be forgotten that the goal of our running schools is to train people, to train socialist citizens who are sound in body and mind and who act on their own initiative and stand on their own two feet. The goal is not to train pampered sons and daughters of wealthy or influential families who cannot support themselves by their own efforts. In particular, today, when the phenomenon of only sons and daughters being arrogant and spoiled is extremely serious, errors must not be made again in

academic education. In this respect, the experiences of private schools that are doing fairly well is worthy of drawing lessons from. [passage omitted]

Correction to 3d Session of Eighth NPC Closes

OW2103004595

The following correction pertains to an item headlined "NPC Closes After Completing Scheduled Agenda" published in the 20 March China DAILY REPORT on pages 20 and 21:

Page 21, column one, paragraph four, only sentence make read: ..People's Bank Law. [new graf]

The Education Law has 84 articles in 10 chapters, including: General Principles; Basic Educational System; Schools and Other Educational Institutions; Teachers and Other Educational Workers; Education Recipients; Education and Society; Guarantee for Educational Investment and Conditions; Educational Exchange and Cooperation With Foreign Countries; Legal Responsibilities; and Appendix. The law will become effective on 1 September 1995.

The Law for the People's Bank of China has 51 article in these eight chapters: General Principles; Organic Institutions; The Renminbi; Business Affairs; Financial Supervision and Management; Fiscal Accounting; Legal Responsibilities; and Appendix. The law will become effective upon promulgation. [new graf]

The meeting put... (providing passage omitted).

Correction to Shanxi Deputies Call on Peng Zhen

OW1703054495

Beijing XINHUA Domestic Service in Chinese at 1514 GMT on 16 March transmits a service message correcting an item headlined "XINHUA on Shanxi Deputies Calling on Peng Zhen" published in the 17 March China DAILY REPORT on page 26:

Column two, paragraph three, last sentence make read: ...properly and economically. [new graf]

The deputies wished Comrade Peng Zhen health, and he thanked them. ... (rewording and adding final sentence)

Science & Technology

State Councillor Song Jian on Forestry Science

SK2303083795 Beijing XINHUA Domestic Service in Chinese 1942 GMT 22 Mar 95

[By Central People's Broadcasting Station reporter Yang Guiming (2799 6311 2494) and XINHUA reporter Zhao Lianqing (6392 6647 1987): "Song Jian Stresses the Need To Put Agricultural and Forestry Sciences and Technologies in a Position of First Development"]

[FBIS Translated Text] Beijing, 22 Mar (XINHUA)—On 22 March when handling official work on the spot at the Academy of Forestry Sciences, State Councillor Song Jian pointed out that agriculture and forestry are the eternal subjects for the existence and development of the Chinese nation and related to the most basic needs for the existence of the coming generations. It is necessary to greatly upgrade the position of agricultural and forestry sciences and technologies. During the Ninth Five-Year Plan period and in the foreseeable future, we should put agricultural and forestry sciences and technologies in the first sphere for the state's scientific and technological development, regard it as a great matter related to scientific and technological development, and pay high attention to it.

Since its establishment in 1958, as the state major research unit for tackling scientific and technological problems and developing major forestry scientific research items, the Academy of Forestry Sciences undertakes one third of the forestry front's projects for tackling key scientific and technological problems and one third of the key scientific research items for the Ministry of Forestry. By the end of 1994, this academy made 879 forestry scientific research findings, of which a large number of scientific research findings, such as ABT root-taking powder and the public experimental area for general remote-sensing investigations of north, northeast, and northwest China's shelter-belt. These help solve key problems in the entire process of forestry production.

After visiting the forestry gene project laboratory, the timber scientific and technological laboratory, and the forestry remote sensing information laboratory, Song Jian talked with some forestry specialists. He said that through the arduous efforts made by the broad masses of forestry scientific workers, great achievements have been made in forestry sciences and technologies. Now, a series of environmental issues, such as soil erosion, greenhouse effect, and the variety of living things, have become the focuses of the whole world. Developing forestry is conducive to solving these problems. The sense of urgency should fully be embodied in scientific and technological policies. So, it is necessary to put forestry scientific research in a higher position, increase the input, and to attract increasingly more skilled persons to engage in forestry scientific research and development.

Song Jian stressed: Forestry science professionals and technicians should pay attention to strengthening the research on basic sciences and strive to strengthen the scientific research forces of advanced sciences. Simultaneously, we should also pay attention to scientific and technological development and try every possible means to pioneer some channels to have science professionals and technicians display their wisdom and intelligence and bring their abilities into play.

Xu Guanhua and Han Deqian, vice ministers of the state science and technology commission; and Liu Yuhe, vice minister of forestry, also joined the handling of the official work.

Chen Junsheng Attends Meeting on Artificial Weather

OW2203184395 Beijing XINHUA in English 1602 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—A national meeting on artificial weather opened here today.

China has been involved in work on artificially affecting the weather during the past 30 years. In May last year the State Council approved the establishment of regular meetings on this subject.

Speaking at the meeting, State Councillor Chen Junsheng called for special efforts to upgrade the sector with more advanced science and technology to help prevent and relieve natural disasters.

As he put it, all levels of governments should provide full support for the work in order to add another 50 billion kg in grain output by the end of this century.

Qinghai Expands Telecommunications; Projects Cited

OW2203173895 Beijing XINHUA in English 0816 GMT 22 Mar 95

[FBIS Transcribed Text] Xining, March 22 (XINHUA)—Northwest China's Qinghai Province will expand its optical fiber communication cable and import more advanced program-control telephone exchanges to pave the way for economic development.

According to its plan, the province will increase the number of cables linking its capital, Xining, with Lanzhou, the capital of Gansu Province this year, from the present 480 lines to 7,600 lines, while laying two more cables between Pingan and Tongren, and between Xining and Haiyan.

It will also use 15 million Deutsche marks loaned by the German Government to import a number of program control telephone exchanges.

Preparation is under way to build a trunk optical fiber communication cable, linking Xining with Lhasa, the capital of the Tibet Autonomous Region, in a move to improve telecommunications on the Qinghai-Tibet Plateau.

Last year saw this plateau province spending 250 million yuan on telecommunications, exceeding the total amount of investment of the previous 44 years together.

With state support, the province has built a 480-line microwave communication project and four satellite ground stations forming a telecommunications network.

It also used 10.54 million U.S. dollars in loans from the Australian Government to import a 68,000-line program

control telephone exchange, and purchased a 10,000-line program control telephone exchange made in Japan last year.

At present, Qinghai has telephone exchanges with a combined capacity of 113,400 lines.

Xian Technology Group Develops Unmanned Plane

OW2303020995 Beijing XINHUA in English 0154 GMT 23 Mar 95

[FBIS Transcribed Text] Xian, March 23 (XINHUA)—Researchers at the Xian Aisheng Technology Group in Shaanxi Province, in northwest China, say that they have developed the world's latest unmanned plane.

The ASN-206 unmanned plane is being launched on a booster rocket and will come down using a parachute, without a runway. All monitoring and ground protection equipment are carried by truck.

According to the researchers, the plane has a payload of 49 kilograms and is able to fly four to six hours at a speed of 210 kilometers per hour at an altitude of 6,000 meters.

It is equipped with cameras and infrared scanners, and is suitable for use as a spotter plane, for monitoring road traffics, in fighting forest fires, and for geological prospecting and or inspecting electric transmission lines.

The first group of the planes has been delivered to the relevant departments for trial-use.

Military & Public Security

Article Views Rapid Supply System to Spratlys

HK2303023595 Beijing JIEFANGJUN BAO in Chinese 17 Mar 95 p 1

[By Cao Baojian (2580 0202 0256) and Ding Feng (0002 6912): "Years of Efforts by a South Sea Fleet Naval Base Result in Integrating the Procurement, Supply, and Transportation of Materials to Nansha Into a System"]

[FBIS Translated Text] After years of active probes, a South Sea Fleet naval base has successfully integrated into a systematic whole the procurement, transportation, and supply of materials to islands and reefs in the Nanshas [Spratlys].

Over the last few years, the logistics department of the naval base has grappled with the problem of supplying materials to islands and reefs in the Nanshas, treating it as a strategic problem under conditions of hi-tech war. It has produced a material supply action program that takes into account market considerations and the Nanshas' unique terrain and weather conditions, and is operational in times of both peace and war. After some 30 supply operations, the program improved the quality of transportation, and shortened the supply time to less than one-fifth of the previous time required.

Aimed at meeting the requirements of future sea battles, and with the support of their superiors, the naval base spent tens of millions of yuan, which they raised themselves, on building up a marine supply fleet equipped with a system that integrates passenger and cargo transportation, shipment of refrigerated and live cargoes, and fuel and water supplies. The fleet can deliver supplies to islands and reefs in the Nanshas expeditiously and in all kinds of weather. Supplies now come in containers instead of vessels of different sizes and shapes, thereby ensuring safety, speed, and low levels of wear and tear during shipment. The berths and loading facilities at the ports, piers, and anchorages built at the great reef also were made to match one another, in an effort to modernize operations.

Official on Past, Future PLA Contacts With Nations

OW2203144195 Beijing XINHUA in English 1300 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA/OANA)—China's contacts with other countries in the military field is growing, based on last year's achievement, according to a senior officer at the Chinese Defense Ministry.

In a recent interview with XINHUA, the officer said that the People's Liberation Army's (PLA) contacts with foreign armies this year is expected to see an overall expansion, aimed at creating friendly and stable relations.

Chinese army will promote friendly contacts with its counterparts of neighboring countries, strengthen ties with armies of countries in West Asia, Africa, and Latin America, enhance exchanges and cooperation with Eastern Europe and the Commonwealth of Independent States, as well as pay attention to links with western armies, he said.

The officer mentioned the visits by a senior logistics officer of the Chinese army to Pakistan, Bangladesh and Thailand, and the China tour by Thai and Belorussian defense ministers early this year.

Chinese military leaders have toured Australia and Chile and will travel to Vietnam, Laos, and Indonesia soon, the officer said, adding that delegations from Pakistan, India, the Republic of Korea (ROK), Myanmar, Turkey, Kuwait, and Nigeria have paid visits to China.

Last year, China's military ties with the United States and other western countries made significant progress and breakthroughs. What has drawn heightened attention was PLA Deputy Chief of General Staff Xu Huizi's US visit and US Defense Minister William Perry's visit to China.

He noted that Tetsuya Nishimoto, Chairman of the Japanese Joint Staff Council, visited China this February, making it the first time a top Japanese military leader has made such a visit in recent years.

Calling the visit an important step in Sino-Japanese military contacts, the officer said that it has stimulated the overall development of relations between the two nations.

In addition, Vice-Admiral Lynne Mason, Canadian deputy chief of defense staff, visited China March 14 as the first Canadian military leader to visit China in the past several years.

The officer expressed the belief that the exchange of visits reflects a crumbling of western nations' sanctions against military contacts with China as well as a restoration of China's military contact with western armies.

He revealed that top military leaders from Spain, Portugal, Austria, and Italy will visit China soon.

Referring to the current China tour by Jacques Lanxade, chief of staff of the French armed forces, the officer said that this first visit by a major military figure from western European countries since 1989 will help restore and develop relations between the Chinese and French armies and promote China's military contact with western countries.

The officer said that China will increase the weight given to military technical exchanges and cooperation with other nations in the areas of education, training, scientific research, and equipment.

The officer reiterated the fact that active military contacts at all levels between the Chinese and foreign armies will help the overall development of friendly ties between China and foreign countries, and are of great significance in safeguarding peace and stability in the Asia-Pacific region and the world as a whole.

He stressed the fact that the Chinese army will adhere to the independent policy of peace and the policy of national defense, and concluded that China will never pose any threat to other countries, but is an important force in safeguarding world peace and stability.

Article Says Military Budget Refutes 'China Threat'

HK2203150795 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0717 GMT 19 Mar 95

["Special article" by reporter He Chong (6320 3095): "China's Military Budget This Year and the Ridiculousness of the 'China Threat' Theory"]

[FBIS Translated Text] Hong Kong, 19 Mar (ZHONGGUO TONGXUN SHE)—According to the 1995 budget report submitted by Finance Minister Liu Zhongli to the National People's Congress [NPC], this year, China's national defense budget is 63.097 billion yuan, an increase of 14.56 percent over last year. If the expected inflation rate of 15 percent in 1995 is deducted, there is no real increase in China's national defense budget. Last year, the national defense budget accounted for 1.3 percent of the gross national product; this year, this

proportion will be lowered to 1.2 percent. This shows that, although China now urgently needs to effect military modernization, national defense still gives way to the central task of economic construction, and the increase in military expenses is still subject to substantial constraints. Recently, some Western politicians said that "China has substantially increased its military expenditures" and this "poses a threat" to its neighboring countries. This is completely groundless.

At the group meeting of the military deputies to the NPC session, a military leader explained that, due to the serious price increases last year, there was a substantial gap between the actual purchasing power of the military budget and the minimum needs of the armed forces. The military cadres and soldiers did indeed encounter many difficulties in their daily lives. So it is necessary to continue to carry forward the spirit of arduous struggle, develop agricultural and sideline production, increase the self-sufficiency of the troops, and thus resolve the problems. At the same time, it is necessary to repeatedly educate officers and men and make them correctly understand the fact that weaponry, equipment, and their living conditions cannot be improved quickly enough because of the military funding shortage. They should be instructed to be willing to share the burdens with the party and the state.

The Chinese military calls for maintaining arduous struggle and increasing self-sufficiency. This means that, in peacetime, troops will be engaged in production while undergoing military training. They plant vegetables and raise pigs and chicken around their barracks so that they can supply themselves with most nonstaple foods. Sometimes, they participate in building roads, bridges, and houses, for which they earn a small salary. In China, the modest amount of military funding, the low wages for officers and men, and the participation in physical labor have become the unique characteristic of the Chinese armed forces.

However, over a certain period, some people in the West, harboring certain political motives, have propagated the "China threats" theory in disregard of the facts. In the latest example, which occurred not long ago, JANE'S NATIONAL DEFENSE WEEKLY published an article, saying that "China wants to control the South China Sea and even the Indian Ocean, giving rise to fear among its neighboring countries in Asia." Similar arguments have appeared from time to time.

Fortunately, many people are still fair with China. For example, Malaysian Prime Minister Mahathir pointed out at a forum in late January this year: "Basing the establishment of the security order on the belief that China is posing a military and political threat is not only a wrong but also shoddy and dangerous policy." He said: As a matter of fact, "China should be regarded as a huge economic opportunity rather than a political threat."

(Nordi Sobi), a member of the brain trust for Prime Minister Mahathir and director of the International

Affairs Research Institute of Malaysia, recently published an article in which he analyzed some "oversensitive opinions" on China among some southeast Asian countries, maintaining that the "illness of fearing China" in these countries is uncalled-for. He enumerated data and said that, according to the annual book published by the Peace Institute of Stockholm, China's military expenditure in 1985 amounted to \$5.665 billion and that in 1993 amounted to \$5.387 billion, showing a growth rate of only 7.07 percent. In the same period, the military expenditure of the ROK increased by 51.6 percent; that in Japan increased by 29.76 percent. In 1994, China's military expenditure was only one-third of Japan's and was the same proportion of the ROK's. China's territory and population are several times or even several ten times those of Japan and the ROK. Why have some people shown no vigilance against the increase in military expenditures in Japan and the ROK but have become so nervous at seeing the modest increase in China's military expenditure? Moreover, China did not conclude any security treaties with the military superpower, as Japan and the ROK did, and it only concentrates on national defense. Why would one have to fear China?

As people know, the "China threat" theory has come from the other side of the Pacific Ocean. Therefore, Okakura, a resident reporter at Japan's NIHON KEIZAI SHIMBUN, made a comparison between China's military expenditure and the United States' military expenditure this year. He pointed out: This year, China's military budget is 63.097 billion yuan, or \$7.51 billion according to the official exchange rate. The military budget of the United States this year is \$257.8 billion, which is over 30 times China's budget. Then, the Japanese reporter said: China's military budget is far smaller than those of Europe, the United States, and Japan; it does not invite any worry at all.

This shows that, if a comparison is made, the so-called "China threat" argument of the West is completely untenable.

Military Tries To Bolster Relations With West, Asia

HK2303042995 Hong Kong SOUTH CHINA MORNING POST in English 23 Mar 95 p 9

[By Willy Wo-Lap Lam]

[FBIS Transcribed Text] Senior military delegations from Spain, Portugal, Austria and Italy are due to visit China this year, according to official sources. Defence analysts said Beijing was confident that military relations with Western and Asian countries would soon be fully restored to levels before the June 4, 1989 crack-down. The analysts said the People's Liberation Army (PLA) was hopeful that it might gain access to Western military know-how.

China is hosting high-level military delegations from France, Thailand and the United States. And a senior

PLA delegation led by the Assistant Chief of Staff General Xiong Guangkai is visiting the United States next week.

"The sanctions on military exchanges that Western countries have imposed on China have, on a de facto basis, been broken," a spokesman of the Foreign Affairs Department of the Ministry of Defence told Xinhua (the New China News Agency). The spokesman cited the visit by the French Chief of Staff Jacques Lanxade as a sign of a thaw in military relations with the European Union. "This will have a positive, catalyst effect on exchanges between the armies of Western Europe and the Chinese Army," he said.

The spokesman anticipated a "simultaneous" advance in military ties with Asian, Western Asia, African, South American as well as Western countries. He reiterated that the PLA would not pose a threat to any country.

Western military analysts said the PLA was anxious that the vice chairman of the Central Military Commission, General Liu Huaqing, would visit the United States soon after General Xiong. They said in spite of the improved atmosphere in Sino-U.S. military ties, it was unlikely Washington would soon lift the ban on the transfer of military technology imposed after the Tiananmen Square massacre.

Sources in Washington said General Xiong, an expert on army intelligence, was on a "transparency mission," meaning he would explain to the United States issues including the structure of the Chinese forces, their strategies, and long-term goals. The sources said, however, that the American authorities had had difficulty persuading PLA officers to reveal the extent and uses of its "hidden budget." They said an even more daunting obstacle was Beijing's refusal to resume consultations on nuclear nonproliferation.

A senior U.S. Defence Department official was to have accompanied Energy Secretary Hazel O'Leary to Beijing last February for discussion with PLA officers on the subject. "Beijing is using the economic card, the purchase of weapons and technology, to win the hearts and minds of Western armies," said an Asian diplomat. "It has been generally successful in playing off one Western military establishment against another." He added, however, that fear of the PLA's rapid expansionism might translate into a "united front" among Western powers against the Chinese Army.

***Article Surveys PLA Bridging Equipment, Techniques**

95CM0087A Beijing BINGQI ZHISHI [JORDNANCE KNOWLEDGE] in Chinese No 6, 15 Nov 95 pp 2-3

[Article by Chen Mingye (7115 2494 2814): "Crossing Naturally Formed Chasms As Easy As Crossing Level Land; An Introduction to China's Military Bridging Equipment"]

[Excerpts] [Passage omitted] At present, each of the People's Liberation Army's [PLA] engineering units equipped with bridging equipment has seven major types:

Light crossing equipment. This includes folding boats, floating rubber boats, marine rubber boats, reconnaissance rubber boats, and squad assault boats. These boats are powered with speeds typically in the 25 km/hr range, and they are characterized by being low in volume, light in weight, having excellent rotproofness, and simple and flexible operation. Before they are floated, for the most part because of their folding capability, they are convenient to transport over land, and can accompany units on maneuver. The squad assault craft can achieve a maximum navigation speed of 40 km/hr, and one boat can at one time carry 12 fully armed personnel.

Light boat bridges. These have a load of roughly 20 tons, and are made up of boats, superstructures, fixed (anchored) bridge footings, onshore sections, auxiliary equipment, and vessels and vehicles, and a motorboat is provided to give motive power on the water. This type of boat bridge has excellent maneuverability, and floating bridges of various tonnage can be erected according to requirements (for military-use ferries and specially supplied ferry personnel and equipment, it can both independently complete the mission of ferrying personnel and equipment and can also on its own provide motive power or hitching power for boat navigation) and joined to form a multi-ton raft of pontoons (using three or four boats as bridge footings, the boats are equipped with auxiliary equipment such as vehicle wheel rut planks and fill planking for forming a door-frame shape, over-water ferry bridge), suitable for a maximum current of 2-2.5 meters per second [m/s]. This is one of the principal pieces of equipment used by the engineering troops river crossing (sub) units.

Heavy boat bridges. These have a load of roughly 40-50 tons, and there are of the following two main types: The first type is a normal heavy boat bridge; the other type is a heavy folding-style boat bridge. These two types of heavy boat bridges can be used to form variable tonnage boat rafts and floating bridges, and can ferry tanks weighing 36-46 tons. Heavy folding boat bridges are composed of regular river-standing boats, shore boats, boat vehicles, and auxiliary equipment. A complete set of equipment makes it possible to erect 50 ton floating bridges 308 meters in length, and it is possible to combine varying tonnage boat rafts and erect three types of tonnage floating bridges. Floating bridges composed of heavy folding-type boat bridges are as stable as fixed regular bridges in the primary water navigation channels of the Yangtze River with a 2.36 m/s current.

Railroad boat bridges. These include mobile boats, non-mobile boats, frame section structures, anchoring equipment, lifting equipment, and loading bridges (here the entire boat bridge equipment, in-water floating bridge or boat rafts and the onshore vehicles and rut steel planks,

are joined, normally in a ladder-shaped cells), on-off equipment, transport vehicles, special use tools, etc. These are primarily used in wartime for overcoming river obstacles and ensuring continuity of railroad transport. After the railroad boat bridges have been erected at the side of highway boat bridges, it is also possible at the same time to have tanks and vehicles pass. In peacetime, during suddenly occurring events such as floods and earthquakes, after fixed bridges have been destroyed, it is possible to have emergency erection of a railroad boat bridge to allow vehicles to pass. In the process of railroad construction engineering, prior to major bridge construction, it is possible to first erect a boat bridge to link up both banks, and carry out track laying for conveying road construction materials and equipment, and it is possible to put together construction equipment on the water.

Special type boat bridges. At present, these are the primary equipment used by the PLA for overcoming particularly large river obstacles such as the Yangtze River. It is possible to construct 50, 60, 80, and 100-ton floating bridge ferries, and 60 and 100-ton ferry transport boat rafts and docks. It is also possible to form 100-ton, large area ferry transport boat rafts. In wartime these can ferry various types of tanks, artillery, and vehicles, overcoming river obstacles, while in peacetime, they can be used for emergencies and fighting floods, and it is also possible to construct civilian use ferries and complete various types of transportation and construction safeguarding operations.

Belt type boat bridges (see Fig. 4). These are composed of in-water boats, shore boats, boat vehicles, road surface equipment, motorboats, and corresponding transport vehicles. Of these, in-water boats and shore boats are all composed of four integral sealed cells, forming "W"-shaped folding loaded vehicle transports. After being floated on the water, they automatically expand into

their employment attitude and form a continuous belt-type floating bridge. They are called belt-type floating bridges because they are distributed load floating bridging equipment that after being put together form a belt like a watchband on the water surface. They are very mobile, can be erected in normal river currents, and are suitable for use by frontline troops, but their load capacity is limited. The assembly (loading/unloading) of belt type boat bridge equipment is done mechanically, and they can safeguard technical weaponry and vehicles less than 50 tons in overcoming river obstacles. China's belt-type boat bridges have reached the advanced level of similar foreign products, and in 1989 China was able to export this type of product and related technology. Belt-type boat bridges are key equipment for China's boat bridge ferry (sub) units.

Water borne powered equipment. These principally include the 90-ton motorboat, the 150-ton motorboat, and the 79 model motorboat, etc. The 90-ton motorboat is primarily used for erecting floating bridges and pushing or pulling water ferry boat rafts. The 150-ton motorboat can pull or push 50 ton water ferry boat rafts or bridge link boat rafts. The 79 model motorboat is part of the complete equipment set for belt-type boat bridges, and can be used in other ferry activity. This motorboat has a comparatively high navigation speed, large pushing power, and can be used for vehicle transport and as a stable platform for loading and unloading vehicles.

At present, PLA scientific research departments are developing a special type of boat bridge. The most important new characteristics of this new type of boat bridge are that it has its own power capability, is capable of excellent on-water mobility, has a rapid structural speed, can be rolled up and moved rapidly, can transport 10 tanks at one time, and has the advantage of wartime/peacetime and military/civilian integrated use capabilities.

General

Wu Bangguo Interviewed on State Enterprises

*HK2203140795 Hong Kong TA KUNG PAO in Chinese
18 Mar 95 pp A1, A2*

["Special dispatch" by staff correspondent Li Binghua (2621 3521 5478) on an "exclusive interview" with Vice Premier Wu Bangguo: "Wu Bangguo Talks About Importing Foreign Capital and Stresses Earning Technology With Markets"—place and date not given]

[FBIS Translated Text] Beijing, 17th—In an exclusive interview with a TA KUNG PAO correspondent, Wu Bangguo, who was appointed just today as vice premier with an industrial production, transportation, and enterprise reform portfolio, pointed out that China's state-owned enterprises have their own advantages and it is entirely possible to manage them well.

During the interview, Wu Bangguo was lively, sharp-witted, and made a deep impression on this correspondent. At 53, Wu Bangguo was promoted from party secretary of the Shanghai Municipal CPC Committee to the Central Committee level after the Fourth Plenary Session of the 14th CPC Central Committee. In the last few months since his promotion, he has visited nine provinces, cities, and autonomous regions. These are: The three northern provinces, Inner Mongolia, Ningxia, Shanxi, Hebei, Beijing, and Tianjin. He has conducted research and investigations in these place to familiarize himself with the local situations.

Wu Bangguo gave this correspondent his views on reform in state-owned enterprises and the problem of importing and utilizing foreign capital; he suggested that China should remain firm in earning foreign technology with its own markets.

One important mission for China this year is to deepen reform in state-owned enterprises. Wu Bangguo pointed out that the central authorities have taken the reform very seriously and have made specific plans for enlivening large and medium-sized state-owned enterprises. The Third Plenary Session of the 14th CPC Central Committee explicitly put forward the concept and direction of building a modern corporate system. At present, pilot programs for such a system are being pursued in 18 cities, at 56 conglomerates and three joint-stock companies, with the objective of eventually setting up a hundred firms with the modern corporate system. Localities are implementing the spirit of the Central Committee and State Council according to their local conditions with a view to obtaining successful experiences.

Wu Bangguo believed that we should assess state-owned enterprises objectively and accurately. It does not conform with reality to look at state-owned enterprises as being either a total mess or a complete success. He said: Since reform and opening up, there has been very rapid development of foreign-invested, collective, township

and town, and privately run enterprises. However, state-owned industry remains the backbone and main pillar of the national economy. State-owned enterprises account for only 20 percent of all enterprises, but 53 percent of total market sales volume, over 60 percent of all realized profits and taxes, and 75 percent of the net capital assets of all enterprises. Moreover, state-owned enterprises are the main suppliers of railways, transportation, telecommunications, petroleum, coal, and other infrastructural products, and the main players in other advanced and backbone industries. They have a strong foundation and technological advantages. The comprehensive economic returns index of state-owned enterprises in 1993 was higher than the average for the remaining enterprises by 9.6 percentage points, and their labor productivity was one-third higher than the national average. In the three years since 1992, state-owned industry has grown at annual average rate of 8.2 percent, its completed profits and taxes at a rate of 22 percent, and its profits and taxes at a rate of 29 percent. Moreover, a number of highly dynamic large and medium-sized state-owned enterprises have appeared. All these facts tell us that state-owned enterprises enjoy advantages and that sound management of them is entirely possible.

However, it is a fact that state-owned enterprises are facing many problems and difficulties. Wu Bangguo analyzed in detail the problems of redundancy, enormous debts, and heavy social burdens facing state-owned enterprises. First, China has a huge population and its economy is not advanced. The policy adopted has been one of low wages to make high employment possible by splitting up a job among several workers, with the result that there are more people than the number of jobs available. Many contradictions will be solved if we can transfer these redundant workers and offer them placements. Second, state-owned enterprises are saddled with heavy debts. Internationally, the asset-liability ratio for a company is normally around 50 percent. In China, state-owned enterprises have a ratio of 68.2 percent. Third, industries also have heavy social burdens, especially big enterprises on the front line of development. Often they are established ahead of the formation of any community, have no division of labor or specialization to rely on, and have to provide "large-scale and comprehensive," or even "small-scale but nevertheless comprehensive" social services. This explains why enterprises have to run their own kindergartens, schools, hospitals, and so on. The solution of this problem takes a long time.

One Encouraging Change Is That the Concept of Competition Has Taken Root

Wu Bangguo said: Under the planned economy, enterprises were operated around plans. An enterprise only played the role of an assembly line. The factory manager did not have to make decisions and needed to concentrate only on securing projects from the state. Responsibility was taken on by the state. Now that we are moving toward a socialist market economy, enterprises can no longer rely on the state for income. Concepts concerning

markets and competition are beginning to take root, and enterprises are becoming better at marketing and adjusting to the market. This is an encouraging change and such progress should be given due recognition. However, for enterprises, their operating mechanisms are not flexible enough and their awareness of competition not strong enough. In April last year, half of the state-owned enterprises lost money; and 34 percent of them still do even after great efforts. We must give full attention to this situation.

A Correct Evaluation of Enterprises, Confidence, and a Sense of Urgency

There is a school of theory outside China which makes too much of the problems and difficulties facing state-owned enterprises in China and too little of their value and functions. It is easy to see how nonobjective and inaccurate this school of theory is, which has been pointed out by some Nobel-prize laureates. Wu Bangguo stressed that we must grasp the real substance and the real situation through work and practice; we must be neither blindly optimistic nor unreasonably depressive. Of course, Wu recognizes the enormity of state-owned enterprise reform. General Secretary Jiang Zemin has said that we should be ready to fight a few tough battles. Premier Li Peng also remarked in his report that we must achieve some results by the end of this century. Therefore, we must have confidence and a sense of urgency, and cannot be naive and careless. We must realize that this is a process and we must make arduous efforts, solve practical problems in a down-to-earth manner, and advance steadily.

Wu Bangguo Advances Four Points on How To Deepen Enterprise Reform

Wu Bangguo advanced four points on how to deepen enterprise reform and enliven state-owned enterprises:

First, enlivening state-owned enterprises does not mean enlivening, without exception, all enterprises. Instead, we should focus on enlivening the state-owned economy. It is the law of the market economy for new enterprises to be born and old ones eliminated through competition. It is neither possible nor necessary to enliven all enterprises, not to mention that this does not conform to the law of the market economy. At present, structural contradictions are very sharp. In some localities, the production structure and product mix will certainly break down if adjustments are not forthcoming. Therefore, it is necessary to pursue adjustments in production structure and product mix, and promote an optimal allocation of social resources in order to benefit from the efficiency of structural optimization, economies of scale, and technological progress.

Second, we should concentrate our energy on healthy enterprises. Take Shanghai as an example. It started strategic adjustment in its industrial structure with emphasis on its six great pillar industries, such as metallurgy, petroleum chemicals, automobiles, and telecommunications. The results: The sales volume of the telecommunications industry alone jumped from 1.4 billion

yuan in 1991 to 10.3 billion in 1994. The six great pillar industries now account for 45 percent of Shanghai's total sales volume and 55 percent of its industrial profits and taxes, which are growing at an annual rate of 30 to 100 percent. According to statistics, China's 500 large-scale enterprises account for about 40 percent of the country's sales-derived income. Large-scale enterprises are also the major players in the United States, Japan, Western Europe, and the ROK. The advantage of concentrating on healthy enterprises is: One, high returns—they can provide effective supply and accumulation. Two, a large range of industrial interconnections—once healthy enterprises are back on their feet, they will be the main investors and will provide help to loss-making enterprises. In Shanghai, for example, one auto industry is responsible for the creation of many factories. This in effect allocates available assets to boost returns.

The Ultimate Goal Is Sound Management in State-Owned Enterprises and Building a Modern Corporate System

Third, since our ultimate goal is sound management in state-owned enterprises, we must understand fully the four requirements of "clear property rights, separation of government from business, well-defined responsibility, and scientific management" for establishing a modern corporate system. We cannot see a modern corporate system as nothing but joint-stock systems and listed companies. Not all enterprises have to be on a joint-stock basis. Even in the United States, there are sole proprietorship, partnership, or family-based businesses. Therefore, we should integrate reform with reorganization and transformation and make real efforts to strengthen management.

Fourth, we must handle properly relationships among reform, development, and stability. Stability is the foundation and premise for every other task, without which things might fall apart even with the best methods. Frankly speaking, it is not yet possible to pursue massive enterprise bankruptcy, because neither social security nor the labor market is yet sound and complete. Many people still find it hard to accept the concept of making enterprises bankrupt. Since there are practical as well as ideological problems, we can only mount some pilot programs first, and wait until conditions are ripe. We must consider state financial power and the macroeconomic environment. Since the State Council has made controlling inflation the primary target for this year's economic work, it will inevitably pursue policies to tighten monetary supply and finance. Given such a macroeconomic environment, being too naive or idealistic may ruin the effort.

Integrating Importing and Adjustment; Genuinely Raising Product Quality

On the problem of actively attracting and utilizing foreign capital, Wu Bangguo pointed out that the present age is characterized by reform and opening up, which is a key integral part of Deng Xiaoping's theory of

socialism with Chinese characteristics. In his addresses to Shanghai and Guangdong National People's Congress deputies' discussion groups, General Secretary Jiang Zemin repeatedly stressed that the basic principle and policy of reform and opening up would remain unchanged. China has entered the second step of what is described by Deng Xiaoping as the three-step development strategy. It requires a large amount of capital and so cannot rely solely on people's savings. Actively attracting foreign capital, grafting, and transformation, therefore, become good and effective ways to solve the problem of insufficient funds. In the future, the import of foreign capital must be integrated with China's industrial policies and its adjustment efforts, with a view to genuinely raising the quality and technological input of products. Wu Bangguo admitted frankly that when foreign countries are viewing the China market favorably, we should insist on trading markets for technology in an effort to gradually narrow the gap between China and advanced countries. Such a direction benefits China's economic development. One important reason why China's recent development has been relatively speedy is the utilization of \$100 billion of foreign capital in building up the manufacturing industry, with brilliant results. Regarding problems caused by the introduction of foreign capital, such as the draining of state-owned assets, they are those of work arrangements and can certainly be solved satisfactorily.

Wu Bangguo stressed that the effect of introducing foreign capital has proved to be beneficial. We cannot change a proved method simply because of a few problems. The problem of state-owned assets will not be solved with a purely defensive approach. Some are lost because of undervaluation, and many others through absconding, slow depletion, and loopholes. In actual terms, state-owned assets can maintain and increase their value only in operations and transactions. That is the law of the market economy.

The Joint-Stock System Must Be Standardized and Made Responsible to Shareholders

On the transformation of the joint-stock system, Wu Bangguo said: We have launched many such programs, and the problem is the lack of sufficiently rigorous standards. I said in Shanghai that joint-stock enterprises must be transformed before they are listed. The truth is that some enterprises are run without any supervision at all immediately after they have been listed. Joint-stock enterprises must be responsible to shareholders, their mechanisms changed to increase transparency, the management perceptive and efficient, the finances clearly audited, and management responsibility and targets clearly defined. The stock-joint system must be standardized while still at an experimental stage, otherwise we will be irresponsible regarding medium-sized and small investors.

Wu Bangguo said frankly that the transfer from China's biggest industrialized city to the central authorities was a

fairly big change and challenge for him. He said: Conditions in China vary greatly from place to place, with radical differences in natural resources, levels of productive forces, standards of living, and cultures, concepts, and habits. In the last few months, he has used every opportunity to travel to different places to gain firsthand experience. The travel has greatly broadened his mind and perception and made him realize how difficult it is to manage such a big country as China. Wu Bangguo, who claimed to be inexperienced in working in the central authorities, now wants only to study more, investigate and research actively, and learn from senior and experienced comrades and comrades from the localities. He is working actively, aggressively, and consciously to build himself up.

Wu Bangguo's family still lives in Shanghai. He compared himself to a happy bachelor in Beijing, able to devote more time, energy, and thinking to his job...

Enterprises To Make Inventories of State Property

OW2203184295 Beijing XINHUA in English 1603 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Chinese enterprises, both at home and abroad, were urged today to make clear inventories of state property and debts to pave the way for effective macro-economic control and readjustment of the economic structure.

Zhang Youcai, vice-minister of finance and concurrently director of the State Administration of State Property, told a press conference today that the aim of this year's property check is to get an idea of the exact amount of state property, and its structure, distribution and economic performance, as well as the state property used by the country's administrative and institutional departments.

He said China must check the number of state-owned enterprises this year and make preparations to extend such checks to the state-owned enterprises overseas.

The official also called on the entire country to start calculating the amount of land occupied by state-owned enterprises and keep the figures up to date year by year.

To get accurate results, Zhang urged localities to make sure they got a clear picture of state property. Officials who deliberately hide such property or present false reports will be punished in accordance with the administrative regulations and discipline, he said.

Survey Will Determine State Assets Value

HK2303090495 Beijing CHINA DAILY in English 23 Mar 95 p 1

[By Liu Weiling: "State To Begin Asset Survey"]

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[FBIS Transcribed Text] The central government is launching a nationwide drive this month to determine the asset value of state enterprises and institutions, Vice Minister of Finance Zhang Youcai said yesterday.

The move, an essential step in reforming state enterprises and establishing a modern enterprise system, is geared towards ascertaining the exact value of state assets and strengthening the management of state property, said Zhang, who is also director of the State Administration of State Property.

The importance of this move in the protection of state assets also was highlighted in Premier Li Peng's work report during the recently concluded National People's Congress session.

Overseas enterprises set up by domestic investors also will be included in the assessment to prevent the drain of state assets overseas.

And state enterprises with shares in joint-stock limited companies or Sino-foreign joint ventures also will be urged to check their properties in these enterprises, said Zhu Zhigang deputy director of the State Administration of State Property.

The assessment of domestic enterprises will be concentrated on asset-checking, defining property rights, re-assessment of property values, and registration of property ownership.

For overseas enterprises, the assessment will be focused on checking of property, clarification of losses and profits, and registration of property rights.

Overdue loans of financial institutions will be another focal point of this year's appraisal Zhu said.

Land used by State enterprises also will be evaluated and a land pricing system will be established to guide the transfer of land-use rights.

The assessment, scheduled to be completed by the end of the year, is also aimed at getting an exact number of China's State enterprises and compiling a codename list for them, Zhu said.

The code system will lay the foundation for a unified, scientific, and standardized auditing and supervision system, Zhu said.

After completing the assessment, the administration will present a volume of national balance sheets covering all state enterprises, and reports on the total volume, distribution, structure, and utilization of state assets, he said.

Forum Discusses 1995 Enterprise Reform, Pt 3

HK2303100095 Beijing RENMIN RIBAO in Chinese
22 Feb 95 p 9

[Report: "Emancipate the Mind, Go Deep Into Reality, Work in a Down-to-Earth Manner, and Promote Development—Discussion on 'Prospects for Deepening Enterprise Reform in 1995,' Part 3"]

[FBIS Translated Text] Further Understanding, Practice Seriously

Ma Hong (honorary director general of the State Council Development Research Center): The reform of state-owned enterprises in China is being carried out against the big historical background of the change from a highly centralized traditional planned economy structure to a socialist market economy structure. The central authorities have put forward that the objective of the enterprise reform in China is to establish a modern enterprise system, indicating that the enterprise reform has entered a new stage. Looking back on the course of the enterprise reform, our theoretical understanding of reform was gradually furthered with the development of reform practice. Viewed from the practice of the enterprise reform, we have gone through several stages from the government's direct planned management of enterprises, to increasing the rights of enterprises to make their own decisions, the economic responsibility system, paying taxes in lieu of handing over profits to the state, and contracting, to the modern enterprise system. Viewed from our understanding of the economic structure in China, we have gone through a process of understanding from the unitary planned economy, to the planned economy as the dominant factor supplemented with market regulation, the socialist planned commodity economy, and the integration of the planned economy with market regulation, to the socialist market economy. This is why we say that, without gradually furthering our theoretical understanding, it will be difficult to deepen reform practice and the furthering of theoretical understanding is initiated by the gradual deepening of reform practice.

What we are practicing is market economy within the socialist system and not market economy within the capitalist system. A major difference between the two is that the former takes public ownership as the main body and does not take private ownership as the main body. On the contrary, the latter takes private ownership as the main body. This point is a very important issue in deepening the reform of state-owned enterprises. The socialist market economy with Chinese characteristics is based on public ownership and is linked with public ownership. However, how to realize public ownership within the socialist market economy structure, state ownership in particular, remains an unsolved problem. It is necessary to carry out further research at a deeper level and to make progress in theory to guide practice.

Public ownership has various forms, including the state-owned economy, the collective economy, the cooperative economy, and so on, and not just the state-owned economy. This is also true of the state-owned economy. State-owned and state-run is one form and, at present, many of our state-owned enterprises are still using this form. This form played a very important role in the past in the development and establishment of the foundation of the socialist economy. However, with the increasing expansion of large-scale socialized production, using such a form alone can no longer meet the needs of

development. Of course, this does not mean that such a form should be abandoned. Some state-owned enterprises still have to use the form of state-owned and state-run. For example, enterprises which have a direct bearing on state security and those in departments with special importance, such as the international astronautics industry, the mint, and so on, should use the form of state-owned sole corporations. Enterprises of urban public utilities, power supply, telecommunications, and railways and enterprises in departments which are characterized with natural monopoly should use the forms of state-owned sole proprietorship and state-owned capital holding. Enterprises of basic industries and mainstay industries which are of a monopolistic nature to a certain degree and which occupy an important position in the national economy, such as large enterprises in the auto, petrochemical, and steel industries, may also use the form of state holding and equity participation. However, some enterprises, such as medium and small enterprises in industries engaging in general competition may not necessarily use the state-owned state-run form but, instead, may use other appropriate forms such as the state-owned and local people-run form. I think that the so-called state-owned and local people-run form is relative to state-owned and state-run. State-owned and local people-run does not mean changing the ownership but change the ways of operation of enterprises. That is, to change from the direct government operation and management of enterprises to enterprises adopting ways of operating the market economy in which enterprises are responsible for their own decisions on their operation and on their own profits and losses, exercise self-restraint, and seek development in competition through their own efforts. The state-owned and local people-run form also has many variations but, no matter which form is used, the state-owned economy, being the leading force of the socialist economy, should never be weakened, only strengthened. The reform of state-owned enterprises, the establishment of a modern enterprise system, and clearly defining property rights must bring about the preservation of, or an increase in, the value of state-owned assets and give play to their leading role in the development of the national economy. Only in this way can the nature of socialism have a reliable material guarantee.

Clearly defining rights and responsibilities and clarifying property rights are closely related. If property rights are not clearly defined, it will be impossible to clarify rights and responsibilities. Besides, only if government functions are separated from those of enterprises can rights and responsibilities be clearly defined. In separating government functions from those of enterprises not only the government should change its functions, enterprises must also change their internal functions. At present, the burdens on many enterprises are quite heavy. Some of the government functions or social functions performed by enterprises should be performed by the government or should be given to social organizations to take care of them. Enterprises should perform their own functions. Only if this problem is solved can a series of problems

such as the excessive burdens on enterprises, difficulties in making arrangements for redundant workers and staff members, and so on, be solved; can state-owned enterprises be put on the same starting line for competition with enterprises of other economic categories; and can the situation in state-owned enterprises be improved.

Regarding the question of giving guidance to scientific management, we should establish a modern enterprise system and a common form is the company system. The company system has a series of new practices concerning the position of legal persons, the distribution of resources, the procedures for making policy decisions, the formulation of strategy, the general plan for operations, and the distribution of income. It is necessary to raise the level of management by a big margin. Besides, enterprises using the company system have a set of organizations such as general shareholders meetings, a board of directors, a supervision council, and so on; however, how to handle their relationship with existing organizations such as party committees, administrative organizations, conferences of representatives of workers and staff members, and enterprise trade unions is also a very realistic problem. If these problems are not solved by deepening enterprise reform, enterprise management cannot be standardized, legalized, or scientific. At present, many new questions have been put forward in the reform of enterprises and this requires us to continue to emancipate our minds, further our understanding, go deep into the reality, sum up experience, and push reform to a deeper level.

Implement the Labor Law, Do a Good Job in Social Security

Wang Jianlun (a member of the party group of the Ministry of Labor): To establish a modern enterprise system, the reform of various systems in enterprises such as the labor, wages, and social security systems, should be carried out in a coordinated manner.

1. We should seriously implement the Labor Law and establish a new type of labor system which is in keeping with the needs of the socialist market economy and, in this respect, we must first speed up the establishment of a labor contract system. In 1995, the labor contract system should be implemented among over 80 percent of the workers and staff members across the country. By the end of 1996, the labor contract system should basically be implemented comprehensively throughout the whole country. Besides, we should ensure the right to choose people for jobs in enterprises according to law and explore how to solve the problem of redundant personnel.

2. We should speed up the reform of the pension and insurance system and establish a new mechanism which integrates unified social planning with individual accounts. The Ministry of Labor should be responsible for organizing and promoting supervision, guidance, and experiments at selected points of social security work for workers and staff members in urban and rural enterprises.

3. We should ensure the basic livelihood of unemployed workers and staff members and promote employment for them. The unemployment insurance system in China was set up in 1986 and it has gradually played its role in the past two years. By the end of 1994, the total number of workers and staff members joining the unemployment insurance had already reached 95 million. The unemployment insurance system, as a supplementary measure of enterprise reform, should specially play its role in increasing the vitality of large and medium state-owned enterprises and in making arrangements for redundant workers and staff members. As part of the work to maintain social stability, the key is to ensure the basic livelihood of unemployed workers and staff members and to promote re-employment. The key to doing a good job of work in this respect is: 1. To gradually expand the scope of unemployment insurance. 2. To strengthen work to raise funds. Unemployment insurance should be managed according to the principle of fixing the amount to be collected on the basis of the amount to be spent with appropriate reserves and unified social planning should be conducted. We should implement the practice of conducting unified planning at the city level (including the municipal level) and making readjustment at the provincial level. Expenses for unemployment insurance should be rationally borne by the state, organizations which provide jobs, and individuals. Organizations which provide jobs pay unemployment fees according to a certain percentage of the total amount of average annual wages for local workers and staff members with the number of their workers and staff members as the base. Individual workers and staff members contribute unemployment insurance fees at a certain percentage of the total amount of their average annual wages. In case the spending exceeds the funds income in a certain year, the finance department will provide subsidies. 3. To fix the direction and structure of using funds rationally. 4. To earnestly do a good job in providing unemployment relief and promoting re-employment work. At present, we should do a good job in ensuring the livelihood of, and finding jobs for, redundant personnel in the course of changing the system of state-owned enterprises. We should further implement the practice of entrusting banks with the retention of unemployment insurance fees to solve the problem of enterprises delaying payment, or refusing payment, and to ensure sufficient funds can be raised. In accordance with the fact that "enterprises can become bankrupt and workers and staff members can be dismissed," we should make careful arrangements for the use of unemployment insurance funds and the issuance of relief funds. Regarding redundant workers and staff members diverted to society from enterprises, we should issue relief funds for them in good time and with exact amounts if they fall within the scope stipulated by the state and local governments. We should earnestly guarantee their basic livelihood and should use our initiative and enthusiastically provide employment services for them. In making arrangements for unemployed workers and staff members, and for redundant workers and staff members to be diverted to other

sectors, we should implement the principle of integrating the arrangements by enterprises with an individual's own efforts to seek employment and with the assistance of society. We should comprehensively make use of policy support and various means of services, give full play to the enthusiasm of the government, enterprises, and laborers, and develop new scopes of employment.

Make Great Efforts To Reduce Burden on State-Owned Enterprises

Wei Jia (People's University of China Economics Department professor): An excessive burden on state-owned enterprises is an important cause of state-owned enterprises lacking vitality. In the market economy, competition between enterprises is actually competition in costs and quality. An excessive burden on enterprises leads to high costs for enterprises and makes it difficult for them to improve quality. At present, the burdens on state-owned enterprises are mainly expressed in the burdens from redundant personnel, debts, pensions, functions which should be performed by society, and backward technology. Basically, these burdens were formed over a long period in the past and most of them did not originate from the enterprises themselves but from the highly centralized administrative planning structure. Therefore, in reducing the burden on enterprises, not only should we give play to the initiative of the various enterprises but society should also make unified arrangements to solve the problem. In particular, the state should put forward feasible methods through financial policies and banking policies and by other means.

In reducing the burden on enterprises we should have new ideas, blaze new trails, and look for a sound strategy. In this respect, we should resolutely implement the principle of seeking truth from facts and take the development of the productive forces as the standard. Whatever is conducive to increasing the vitality of enterprises and reducing their burdens should be courageously tried and we should not restrain enterprises with old regulations and restrictions which are not in keeping with the market economy. I think that state-owned enterprises have intrinsic vitality and if we can further emancipate our minds, we will be able to release the vitality of state-owned enterprises. The reduction of the burdens on state-owned enterprises needs the coordination of various quarters and, in particular, the smashing of restrictions caused by administration by departments and regions. The various departments should not over-emphasize their own interests but should have their eyes on reducing the burdens on enterprise and increasing the vitality of enterprises. If the burdens on state-owned enterprises are reduced, and if their vitality is increased, the interests of various quarters will also be ensured. Otherwise, the interests of all will be damaged.

Clarify the Idea of Reform and Development

Yu Dong (section head of the State Planning Commission Department of Long-Term Planning and Industrial

Policy): Viewed from the major aspects, we should attach importance to the following issues in deepening the enterprise reform:

1. Readjust the structure of the state-owned economy and fix the focus of development of the state-owned economy rationally. The input of financial and material resources should be concentrated on the state-owned economy in superior positions of important fields.
2. Push forward the technological progress of large and medium state-owned enterprises. Make energetic use of foreign capital to transform old enterprises in accordance with the requirements of state industrial policies. Continue to promote the close combination of science, technology, and the economy. Strive to increase the capacity to develop technology and new products in large and medium enterprises and enterprise groups and speed up the conversion of new technological achievements into productive forces.
3. In basic and mainstay industries, implement the strategy in big corporations of developing 100 transregional, transindustry, and transnational large enterprises so that they will become pillars of the national economy and will participate energetically in international competition.
4. Strengthen the management of state-owned assets in enterprises. State economic management departments and provincial governments should, according to the division of work in supervising state-owned assets, send out supervisory councils to large and medium enterprises under state sole proprietorship to supervise the operation, value preservation, and value adding of state-owned assets and to make suggestions on awarding or punishing enterprise managers in accordance with the merits and demerits of the management of state-owned assets. Members of the board of directors appointed by funding organizations should undertake the responsibility for supervision, value preservation, and value adding of state-owned assets of companies of limited liability and joint-stock companies with limited liability.
5. Strengthen internal management of enterprises and improve the overall quality of enterprises. Strengthen the financial management, cost management, and quality control of enterprises. The payment for labor should reflect the principle of giving priority to efficiency. Those who work more should get more and the gap between different incomes should be widened rationally. Raise the level of income of entrepreneurs and link the income of entrepreneurs with the quality of enterprise management. Establish a relatively sound award and punishment system and bring up a contingent of entrepreneurs who are skillful at management.
6. Adopt various ways to divert redundant personnel in enterprises.
7. Prudently let enterprises whose liabilities exceeds their assets, and which have no hope of stopping losses, go bankrupt step by step. Give consideration to funds for

arrangements for workers and staff members before that for payment of debts. Establish and perfect the property rights transaction market, practice auctioning and fair competition, and guard against sales below the minimum prices. Establish corresponding social security systems with the focus on establishing and perfecting of pension, unemployment insurance, the labor market, and an employment training systems. When letting enterprises go bankrupt, pay attention and guard against "fake bankruptcy" for tax evasion.

What Is Important Is How To Pay for the Enterprise Reform

Liu Wei (vice president of Beijing University Economics College): If we say the enterprise reform is a great system engineering project, the implementation of this project will certainly involve costs. That is, the enterprise reform itself involves costs of an economic nature. Whether or not society is able to pay, and how it pays, undoubtedly constitute important economic restraining conditions for the development rate and scale of the enterprise reform.

Loss-making enterprises which urgently need to change their system and track, cannot pay for the reform and society can hardly pay for them either. We can even say that it is precisely because society is unable to pay such costs that such enterprises are asked to carry out reform as soon as possible. This gives rise to a contradiction: The poorer the competitive power and the lower the efficiency of an enterprise, the stronger the demand for their reform, and the higher the payment for various expenses in carrying out reform in this kind of enterprise. In particular, the enterprises themselves are unable to bear a great amount of reform expenses and financial departments at various levels also find it difficult to pay such expenses.

Therefore, in controlling the speed and scale of the enterprise reform, we must first give full consideration to the economic ability to pay the costs of reform. Otherwise, it will be difficult to carry out the reform and great confusion will occur. Second, the reform of enterprises must be integrated with increasing their ability to raise funds and with widening the channels for raising funds. In particular, creating conditions for enterprises to raise funds from the market appears even more important. Third, some enterprises, particularly medium and small enterprises whose efficiency is relatively poor, should be allowed to sell their assets to acquire the ability to pay for reform costs. In practice, this point has proved to be effective.

***JINGJI CANKAO BAO on Economic Efficiency**

95CE0279A Beijing JINGJI CANKAO BAO in Chinese 9-12 Jan 95

[Four-part commentator's article: "On Raising the Quality and Efficiency of Economic Growth"]

[9 Jan p 1]

[FBIS Translated Text] Our national economy has continued to grow during the past few years. Following a

13.4 percent growth in 1993, our economy last year grew by a further 11.8 percent. Such a sustained high rate of economic growth, which is rare in the world, has had a vital effect on beefing up national strength, improving the market supply, and increasing job opportunities.

Development is definitely necessary. However, growth is not equal to development. Economic development does not merely mean the quantitative growth of the economy; more important is the improvement of economic quality and efficiency. This can be likened to the physical condition of a man. Being fat does not mean being strong. As far as our economy is concerned, the present problem is not the slow growth rate, but the low quality and efficiency of the economy.

What mirrors the quality and efficiency of national economic growth? First, we should see if the growth comes from improved labor productivity or from increased input. Second, we should see if our product mix meets market requirements. Third, we should see if our industrial structure has been further improved. Fourth, we should see if our productive consumption has been reduced. Fifth, we should see if our economic growth has brought about a better environment and improved ecology or if the growth is at the cost of impairing ecological conditions. Of course, the fulfillment of the above requirements depends on technological progress. For this reason, the degree of technological progress involved in economic growth may be viewed as another factor mirroring the quality of economic growth. If our economic growth meets all these requirements, it will not only be in the interest of various enterprises, but will produce social benefits as well. Such an economic growth will, no doubt, give greater material benefits to our society.

In recent years, however, China's economic growth has come primarily from increased input, while the improvement of labor productivity has been relatively slow. In our country, the per capita labor productivity in steel-making is only 20-30 tons, whereas the international record is 500-800 tons. We have seven million coal miners producing 1.1 billion tons of coal, whereas the United States produces 1 billion tons of coal with only 150,000 miners. In the automobile industry, a worker in our country produces 0.24 vehicle a year. The annual output per worker is 17 vehicles in Japan, and 13 in the United States.

The product mix of many of our enterprises cannot meet the demands of the market. The result is that products are churned out and then pile up in stock. As of the end of October 1994, our industrial enterprise funds tied up due to unsalable products totaled 407.9 billion yuan, hitting a record high. This was nearly 80 billion yuan more than the figure at the beginning of the year. According to a survey conducted by China's enterprise investigation department in 1994 covering 2,756 enterprises, 20.9 percent of the state-owned enterprises had overstocks or were experiencing difficulty in selling their

products. Another survey by the State Economic and Trade Commission covering 2,586 loss-suffering enterprises shows that 1,405 of them were operating at a deficit because their products failed to meet market demands. These enterprises accounted for 54.3 percent of the loss-suffering enterprises surveyed. The above problem has inevitably slowed down the turnover of circulating funds. In 1993, the turnover of industrial circulating funds was 1.71 times. From January to October 1994, it was a mere 1.43, whereas the average for the Seventh Five-Year Plan period was 1.83.

With regard to the industrial structure, agriculture and basic industries are relatively inadequate. This constitutes a destabilizing factor for our national economy.

According to statistics compiled by the department concerned covering 92 principal indexes of material consumption, 44 indexes, or 47.8 percent of the total, were higher in 1992 than in 1985. In China's machine-building industry, the rate of utilization of rolled steel dropped from 67.5 percent in 1985 to 57.8 percent in 1992, while the rate scored by advanced countries in the world was over 80 percent. In the GNP, the energy consumption per unit is five to six times as much as that in Japan. In the petroleum industry, the electric energy used for refining each ton of crude oil rose from 41.86 kwh in 1985 to 50.67 kwh in 1992.

Quite a number of our products are not technology-intensive and have a low added value. In developed countries, the foreign exchange earned by the export of textiles is \$10,000 for each ton of fiber contained in the products. In our country, the figure is only some \$5,000. Our technological progress has contributed to about 28 percent of the economic growth, way below the 50 percent registered by developed countries.

For the period from January to October 1994, the rate of profit and tax contributions to the state in the utilization of capital was 10.43 percent nationwide, showing a drop of 3.12 percentage points from the record registered for the Seventh Five-Year Plan period, while the ratio of profits to costs and expenses was 4.84 percent, down by 3.58 percentage points.

From the above, we can see that a huge potential exists in our national economy, and that we can create enormous wealth by raising the quality and efficiency of our economic growth. For example, if our steel utilization rate is at the 1985 level, the savings in rolled steel will be equivalent to a year's output of the Wuhan Iron and Steel Company. If the petroleum industry's electricity consumption matches the 1985 record, we can save 1.2 billion kwh of electric power. If the rate of profit and tax contributions to the state in utilizing capital reaches the level of the Seventh Five-Year Plan period, the state will have additional revenue of more than 90 billion yuan even if there is no increase in production. If the proportions of our basic and processing industries are made appropriate, it will be possible to utilize the presently unused processing capacity—which accounts for one-third of processing industry

capacity—and create additional output value amounting to hundreds of billions of yuan.

Last December, the Central Economic Work Conference pointed out the need to “strenuously raise the quality and efficiency of economic growth and overcome the tendency of arbitrarily launching new projects and single-mindedly going after a high output value and a fast rate of economic growth.” The conference stressed that the above is an important task that must be properly understood and conscientiously fulfilled in 1995. This is a realistic, wise policy decision. Based on this decision, we should change our economy from extensive to intensive operations and strive for an appropriate speed of economic development that will really ensure the quality and efficiency of our economy and enable it to grow continuously. This way we will be able to keep improving the quality of our national economy as a whole.

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To raise the quality and efficiency of economic growth, a task of prime importance is to combine the reform, reorganization, and technological renovation of enterprises. Reform is intended to boost the vitality of enterprises, while reorganization is aimed at improving their structure. And the purpose of technological renovation is to raise the quality of enterprises.

Based on the guidelines contained in the “Decision” of the Third Plenary Session of the 14th CPC Central Committee, the work of enterprise reform for 1995 is to firmly separate government administration from enterprise management and earnestly deal with such questions as the internal management of enterprises and the establishment of a social security system. At the same time, we should see to it that a modernized enterprise system will be implemented on an empirical basis in some places as a breakthrough step to accelerate system renovation and operational-mechanism transformation in enterprises. By so doing, we will provide experience, lay a good foundation, and create an environment for the institution of the modernized enterprise system by the end of this century. Moreover, this year we should devote more attention to the bankruptcy of enterprises. With regard to those enterprises with fewer assets than liabilities and with no hope of stopping their losses, we should act in an organized way to let them declare bankruptcy in accordance with the “State Council Circular on Questions Concerning the Trial Implementation of Bankruptcy Rules for State-Owned Enterprises in Certain Cities.” Another important task related to enterprise reform is to establish by the end of this century a social security system suited to the socialist market economy. The social security system should be characterized by multiple sources of funds, multilayered security, balance between rights and obligations, and socialized management and service. For 1995, the major task is to initiate old-age insurance and unemployment insurance for enterprise employees in cities and towns.

The work of reorganization is to optimize the allocation of productive elements through a rational flow of

existing assets to raise economic efficiency as a whole. The present layout of state-owned industries and their division of labor in making products were established under the planned economic system. They show a high degree of subjectivity and must be readjusted in accordance with the needs of the market economy. Only real big enterprises are the pillars of the national economy. We cannot let those so-called small but complete enterprises remain forever in their present state like a heap of loose sand. Small enterprises should be reorganized into big enterprise groups. One way to do this is to form big groups integrating trade, manufacture, and technology with pillar industries, competitive products, and backbone enterprises as their leading elements. Another way is to form groups combining trade, industry, agriculture, and technology with trade as the principal activity. However, reorganization should not proceed without principle as a “randomly arranged marriage.” It should rely on capital as links and aim at forming integrated groups based on mutual interests.

The government should play a promoting role in this respect. In line with our national industrial policy, the government should select about 1,000 big enterprises in various parts of the country and see to it that these enterprises will become the cores of enterprise groups, which are to be formed mainly through amalgamation and integration. Meanwhile, various methods should be used to restructure the enterprises. These include Sino-foreign joint investment, as well as the lease, sales, contract management, and bankruptcy of enterprises. As for backbone enterprises, measures such as transferring property rights and soliciting foreign capital should be adopted to inject new capital into them. In short, we should restructure and beef up pillar industries, develop competitive products, and strengthen and expand backbone enterprises to raise their international competitiveness.

In our country, a sizable number of enterprises are still quite backward with respect to technology, equipment, and production processes. They are unable to meet market requirements; still less can they take part in international competition. Because of this, it is imperative to devote great efforts to the technological renovation of those enterprises that could have a bright future for market development. Through such renovation, we should see to it that our backbone enterprises will attain a higher technological level, have a greater capacity for sustained development, and become our main task force to compete internationally. In conducting technological renovation, emphasis should be laid on industries and enterprises with development potentials. To do this, we should select some key enterprises as new economic growing points and devote special attention to their development as a way to eventually raise the technological level of the respective industries.

Meanwhile, particular attention should be given to the technological renovation of old industrial centers. In the past, these old industrial centers made tremendous contributions to our country, but now their equipment is out

of date and their technology backward. By putting in a certain amount of money to renovate these old industrial centers, we can spend less and achieve quicker results than starting anew to establish new enterprises. Besides, with the deepening of reform, three changes should be made in the administration of technological renovation. Principal investors should be changed from the government to enterprises. The government's main administrative task should be changed from approving technological-renovation projects to formulating policies to guide technological renovation. And the scope of administration should be changed—it should no longer be limited to state-owned enterprises, but should cover all enterprises in society.

Reform, reorganization, and technological renovation are all tasks that we have carried out previously, but these three tasks have never been combined. Now, by stressing their combination, we mean to use the idea of reform to integrate the three tasks. We should not only rely on reform to establish a modernized enterprise system, but should also rely on it to reorganize enterprises and use the idea of reform to guide their technological renovation. On the other hand, the purpose of stressing the combination of the three tasks is to put the work of reform on a solid basis, reach a genuine solution to the practical problems faced by enterprises, and make a real effort to boost their survival and development capabilities.

Let us imagine a scenario: Both the central and local authorities are teaming up with one mind to concentrate on improvement of some of the largest and most influential industrial enterprises owned by the state. They are restructuring these enterprises to enable them to operate on an economically appropriate scale, transforming their operational mechanisms and reforming their systems to boost their vitality, and renovating them technologically to bring them up to the advanced international level. After a few years, what a spectacular change will take place in China's industry! Let us press ahead toward such an attractive future!

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The key to raising the quality and efficiency of economic growth lies in enterprises. Now, however, our enterprises are plagued with a number of practical problems. One problem is their excessive debts. Enterprises cannot avoid debts, but their debts should not exceed a certain limit. In Western countries, the debt-to-asset ratio is about 20 percent for primary industries, 50 percent for secondary industries, and 70 percent the tertiary industries. In our country, a survey of 124,000 enterprises conducted by the National Administration of State Property shows that their average book ratio of debt to assets is 71.5 percent. After adjustment for losses and unreliable receivables in assets, the real ratio is 84.1 percent. The second problem is overstaffing. This not only affects

the raising of labor productivity, but disturbs the management of the enterprises. The third problem is "enterprises providing social welfare benefits to their employees." Employee requirements for clothing, food, housing, transportation, childbirth expense, old-age livelihood, medical care, and funerals are all taken care of by the enterprises. Such a heavy burden is not only unbearable to the enterprises, but also makes it impossible for them to concentrate on normal operations.

At present, excessive debts have not only imposed a heavy interest burden on enterprises, but also impeded the process of financial reform. How can specialized banks reach the goal of transforming into commercial banks if they are plagued with large amounts of bad and doubtful accounts? There are many reasons for this problem. It is impossible, and also unreasonable, to let the state remit or write off enterprise debts. Instead, the problem should be solved by rearranging assets and liabilities and through a proper flow of assets. Once this problem is solved, we can rectify the relationship between enterprise assets and liabilities and establish a new operational mechanism for their healthy development. To solve this problem, the general concept is: rationally adjusting the enterprise debt-to-asset ratio, reducing and eradicating improper debts in an organized and step-by-step way, and, on this basis, enhancing their consciousness of creditor rights versus debts and gradually forming a standard system for borrowing and repaying loans. In carrying out the above, we should take account of different situations and deal with problems according to their nature. Those enterprises that can yield profits, but have a high debt-to-asset ratios, may be reorganized into stock companies or joint ventures to enable them to pay off some of their debts. With regard to enterprises making little profit or operating at a deficit, we should encourage and support robust business firms to merge or buy those enterprises. As to those that are sound in technology and management and whose products meet the requirements of the state's industrial policy, we may rationally adjust their debt-to-asset ratios through such measures as state investment, selling shares to other enterprises, joint operations, and turning some creditor rights into shares. To acquire experience, the state may conduct an experimental program to clear up and rearrange debts among the government financial department, banks, and selected enterprises with a view to bringing enterprise debt-to-asset ratios down to a reasonable level.

To solve enterprise overstaffing problem, it is necessary to rely on the initiative of the government, enterprises, society, and employees; the solution should be a combination of efforts from all sides. The enterprises concerned should make proper arrangements for their surplus employees. The surplus employees themselves should try to find new jobs. And society should pitch in to help settle the surplus employees. It is necessary to emancipate the mind, think of new ways and open new avenues to provide employment to the surplus employees, and make every effort to diversify measures

for their settlement. We should conduct on a still wider scale the "reemployment program," which cover the three stages of "job waiting, new job training, and reemployment." In this respect, a lot of successful experiences have been created in various localities. In these localities, surplus employees are no longer a burden but are considered as a kind of wealth. In the course of transforming and restructuring the industry, efforts are made to optimize the composition of the labor force. Employees are given job-switching training so that they can learn and master new professional skills. This way, they are not only able to pick up new jobs provided by their respective enterprises, but can also obtain employment outside the enterprises.

"Enterprises providing social welfare benefits to their employees" is a product of the planned economy. As an example, metallurgical enterprises in Shandong alone are running 71 schools at the elementary, secondary, and higher educational levels; 77 employees' hospitals; 188 mess halls; and more than 50 child-care centers. These supplementary units have become a heavy burden on the enterprises. Problems like this should be solved in a step-by-step way. The first step is to institute an independent accounting system for the supplementary units not directly related to production and other operations of the enterprises to gradually cut enterprise subsidies to these units. When conditions are ripe, these units should be separated completely from the enterprises. They should operate independently, be open to the public, and undertake responsibility for their own profits and losses. If qualified, they can be administered by the local government as a part of the government organization.

The masses have inexhaustible creativity. In the 15 years of reform, many difficulties have been solved by the masses through their practical reform efforts. The above are just some principles and ideas. We believe that, in the days to come, the broad masses are bound to have better ideas and more ways to solve problems. Problems seemingly unsolvable in the office can be readily solved through the practical efforts of the masses.

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According to a survey of 2,586 loss-suffering enterprises conducted by the State Economic and Trade Commission in 1993, 2,102 of them suffered losses because of unsuccessful operations and management. There were 697 enterprises whose losses were due purely to management problems. These accounted for 33.17 percent of the loss-suffering enterprises covered by the survey. Poor management is not only a problem in loss-suffering enterprises, but also relatively common in those enterprises that make profits.

In financial management, quite a number of enterprises have no established regulations and rules for the disbursement of funds. As a result, they spend money randomly and cannot make rational use of funds. In other words, efficiency in the use of funds is low. In materials management, there are also rather serious

problems: no inspection system for incoming supplies, no restrictions on acquisition of materials from the warehouse, and no fixed limit on the use of materials. Because of this, the rate of utilization of raw materials is low and production costs are high. Another problem is laxity in quality control, which has resulted in a decline in product quality. In 1993, the State Bureau of Technological Inspection conducted a spot check of the quality of 2,688 products on the domestic market belonging to 70 categories produced by 2,221 enterprises. It turned out that only 70 percent of the products met the quality standards—the lowest standard ever registered.

Seeing this, many economists say that China's economy has enormous potential, and if a little more effort is made to improve its management, economic efficiency can be raised to a great extent.

Why did enterprise management slacken in the great tide of reform? This is a question worth studying. Perhaps the following is a significant reason. Adjustment of the state's policies over the past decade affected to a much greater extent enterprise economic returns than it did internal management. This caused enterprises to look to above and outside for better returns but ignore their internal management. In enterprise reform, which focused on granting power to enterprises and allowing them to keep a bigger share of profits, enterprises could get more power, more profits, and more opportunities to develop themselves. The benefits they received from above and outside could offset losses due to their poor internal management. In their opinion, seeking benefits from outside was much easier than seeking benefits by strengthening internal management. This resulted in the so-called phenomenon of grasping "reform instead of management." Moreover, in dealing with internal management, many enterprises followed the state's lead in granting power and giving out profits. They adopted such measures as "contracted management and prized management," thus ignoring real scientific management.

Now the focus of enterprise reform has changed from granting power and giving out profits to building a modernized enterprise system. Accordingly, the main factors causing enterprises to suffer losses have also changed gradually from policy-related reasons to problems concerning internal management. This can be fully illustrated by the following data. According to an investigation conducted in 1991 by the department concerned, the relative effects of policy-related reasons, the macroeconomic environment, and operational and management problems on the losses suffered by enterprises were 19.4, 47.8, and 32.8 percent respectively. A later investigation, conducted in 1993, showed that the effect of operational and management problems rose to 81.7 percent, while the effects of the other two factors both dropped to about 9 percent.

Successfully improving management is a task of prime importance for enterprises to strengthen themselves and

consolidate their foundations. With successful management as a solid foundation, they can radically boost their competitiveness in the market.

Strengthening enterprise management is a very arduous task. It requires a healthy mentality, primarily a healthy mentality on the part of the leading bodies of enterprises. A survey of loss-suffering enterprises by the department concerned reveals that the problems of 11.32 percent of the loss-suffering enterprises are due to their leading bodies. Many loss-suffering enterprises have shown quick improvement after the adjustment of their leading bodies. To improve enterprise management, we cannot hastily seek quick results; still less should we eagerly pursue fame. It is necessary to do a lot of meticulous and scientific work in an earnest and down-to-earth way.

From the late 1970's to the early 1980's, a "management-improvement craze" appeared among enterprises in China. Afterwards, however, this "management-improvement craze" cooled down because of the above-mentioned reason. Now, while raising once again the question of enterprise management, we are not repeating what we did in the past, but are doing something on a higher level. The reasons are as follows: First, we are building a socialist market economic system. By bringing up again the question of management at this time, we want to build an enterprise management system in line with the socialist market economy. Second, after 15 years of opening to the outside world, we have ushered in a lot of advanced management experience from abroad. There are many more things that our enterprises can use for reference and assimilate today than they could in the 1980's. Third, through 15 years of reform, enterprises in our country have also accumulated a wealth of experience. Accordingly, their present starting line to improve management is much higher than that in the 1980's. In raising the management question again, we have a clear-cut goal—building a modernized enterprise system, a system compatible with the modern market economy. While extensively assimilating experience from abroad, we should seriously sum up our own experience to really build an enterprise management system that can integrate with the international system and, at the same time, corresponds with the characteristics of Chinese culture.

Article Highlights Five Major Economic Problems

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[Article by Wang Tongshan (3076 0681 0005) and Zhang Xinzhu (1728 2500 4554), Economic Situation Analysis and Forecasting Team: "Five Major Problems Facing the National Economy Today"]

[FBIS Translated Text] [Editor's note] This article was selected from "Analysis and Forecast of China's Economic Situation," (Autumn 1994 Report) written by the Joint Economic Situation Analysis and Forecasting

Team made up of people from the Academy of Social Sciences Economics Group and from the State Statistical Bureau's Composite Department. [end editor's note]

China's economy is facing a series of problems today. They include: the inflation problem, the investment scale problem, the state-owned enterprises problem, the agriculture problem, and the uneven regional development problem. Even though different people understand and analyze these problems differently, not only a majority of people in the economic field within the country, but most factual commentary abroad regards these five problems as basic problems in need of urgent solution that are difficult to solve completely during the process of reform and opening to the outside world and development of the economy. The most urgent problem today is inflation, and the inflation problem is closely linked to the other four. The investment scale problem, the state-owned enterprise problem, the agriculture problem, and the unbalanced regional development problem are reflected in a concentrated way in the inflation problem. They are deep matters that have long been exacerbated by the inflation problem. With the steady intensification of reform and opening to the outside world, this relationship shows up more and more clearly. Therefore, intensification of reform to solve these four problems better has become the key to effective containment of inflation for the building of a socialist market economy.

1. The Agriculture Problem and Inflation

Breakdown and analysis of the reasons for inflation in 1988 shows the rise in grain prices to have been one of the main reasons. Grain price rises accounted for 50 percent of the rise in retail prices that year. One major feature of inflation in 1994 was that the fairly high rise in the price of grain and various agricultural and sideline products adversely affected people's daily lives. The rise in grain prices during 1994 accounted for 57.3 percent of the rise in retail prices during the first half of the year, for 60 percent if the rise in retail prices between January and August, and for as much as 67.1 percent in August. The main reasons for the rise in grain and other agricultural and sideline product prices during 1994 were three: One was the tremendous rise in the state procurement price for grain. The upping of grain prices caused a dramatic rise in the price of all food. Second was the rather large number of droughts and floods in 1994, which hurt effective supply of agricultural and sideline products, particularly the supply of vegetables, setting off a rise in prices. Third was irregularities in commodity circulation, which made it impossible for state-owned business channels to play their role to the full, thereby opening up opportunities for those who jacked up prices to make exorbitant profits.

Why has the state raised grain procurement prices steadily? And why do natural disasters have such a dire effect? The fundamental reason lies in Chinese agriculture itself. The trend toward structural rises for agricultural products, such as grain, for a relatively long time

stems from the character of the country's resources and the stage of development. First of all, the amount of agricultural resources per capita in China is extremely low in world terms. The relative shortage of resources means that rise in the relative prices of agricultural products such as grain are inevitable. Second, China is in process of changing from an agricultural to an industrial country. The former situation in which prices of agricultural products were too low relative to all else must be changed through price increases. In addition, the rate of advance in agricultural technology in China is fairly low. This is directly related to China's present stage of development. If the rate of technological advance does not make up for the effect of progressive decline in returns, relative prices must go up. Furthermore, Chinese agriculture today is largely in a decentralized operating condition in which the scale of agricultural production cannot markedly lower costs. However, the most important reason lies in consistent inability to solve effectively the problem of relative low returns from agriculture. Although the government has tried many times to solve this problem by raising prices of agricultural and sideline products, the relative benefit that a rise in prices of agricultural and sideline products provides the peasants is very quickly offset up by a rise in prices of industrial goods, particularly prices of agricultural means of production. Consequently, the peasants find themselves in a relatively more disadvantageous position. Furthermore, this period of "price parity revival" becomes shorter and shorter. In 1993, for example, the procurement price of agricultural and sideline products rose 13.4 percent, but prices of agricultural means of production rose 14.1 percent; thus the "price parity revival" period was zero.

Solution to the agriculture problem is one of the basic requirements for continued intensification of reform and opening to the outside world, and for establishment of a socialist market economy system. Price readjustments

must be used to solve the agriculture problem. However, as reform intensifies, practical experience tells us that when agricultural and sideline product prices are readjusted, the effect in driving up the level of prices overall cannot be ignored. Therefore, we must be cautious when readjusting prices of agricultural and sideline products. We must adopt measures to moderate the inflationary effect. In addition, we must emphasize that rises in the prices of agricultural and sideline products must come mostly from rises in the agricultural productivity rate. We must firmly inculcate awareness that agriculture is basic to the national economy. At the same time, we must take a reform orientation in building the socialist market economy system as a guide for finding real ways to protect the interests of agriculture, improve agricultural production conditions, and solve agricultural problems.

2. The Scale of Investment and Inflation

Inflation of the scale of investment was a problem that existed during the traditional planned economy era, but with the advent of reform and opening to the outside world, its effect has become increasingly marked. The repeated alternation of the dual roles of demand-pulled and cost-driven inflation of the scale of investment has created, in turn, a general rise in the price level. Analysis of the correlation between the investment rate and the inflation rate in China during the 1980s and 1990s clearly suggests that whenever the rate of investment exceeds 30 percent, high inflation is bound to occur for the ensuing two years. The first time this occurred was during 1986, 1987, and 1988 when the investment rate exceeded 30 percent for three years running, thereby setting off high inflation for two years during 1988 and 1989. The second time was during 1992, 1993, and 1994, when the investment rate exceeded 30 percent, causing high inflation during 1993 and 1994.

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994*
Investment Rate	20.1	23.7	24.7	26.5	29.8	31.2	32.0	25.9	25.2	27.3	32.2	37.7	37.1	
Currency Inflation Rate	2.4	4.9	4.5	2.8	8.8	6.0	7.3	18.5	17.8	3.1	2.9	5.4	13.2	19.5

*The 1994 figures are estimated.

Inflation of the scale of investment is primarily attributable to lagging reform of the investment system and lagging transformation of the functions of economic administrative organs in governments at all levels. This lag not only cancels out the macroeconomic regulation and control function of fiscal policies, but also impairs the macroeconomic regulation and control function of monetary policy. Flagging progress in reform of the investment system is also, without doubt, a time bomb that ignites inflation.

3. State-Owned Enterprises and Currency Inflation

The effect of state-owned enterprises on currency inflation is manifested mostly in the following three ways:

First, owing to obstacles that various interests put in the way, mostly we resorted to "delegation of authority and granting of concessions" to reform state-owned enterprise stimulus and decision-making mechanisms. However, the use of such methods in moving ahead with reform meant that budget restraints on enterprises continued to be soft. Enterprises continued to be responsible only for profits but not for losses. Since investment restraints on enterprises were weak, with enterprises failing to repay loans and not declaring bankruptcy despite losses, they frequently either ignored or greatly underestimated risks in making investment decisions. The interest rate lever had virtually no elasticity as far as they were concerned. At the same time, government was hard pressed to find economic means for the allocation

of limited resources; it could rely mostly only on administrative measures to control credit and the scale of investment. Excessive reliance on administrative control was also one of the main reason that China's macroeconomy was prone to shock, and that the shock to prosperity was great.

Second, some state-owned enterprises had administration and management problems. They had trouble digesting rises in upstream product prices. They could only pass along the pressure by raising prices. This not entirely cost-driven measure created a rise in the overall price level throughout society, and it greatly weakened the anticipated effect of price readjustments in the form of "revival of price parity." The temptation of state-owned enterprises that enjoyed a monopoly to raise prices arbitrarily and the impact of this action also produced adverse effects on inflation.

Third, major problems in state-owned enterprises today include not very high returns, open losses, and widespread hidden losses. Moreover, a very substantial portion of state-owned enterprises losses are paid for out of the national treasury. This is also a major factor contributing to inflation. For example, the 41.25 billion yuan of open losses of state-owned enterprises in 1993 ate up about 10 percent of the fiscal budget for that year (not including loan revenue). This was more than two times again as much as the fiscal deficit, and it was about 60 percent of the domestic debt for that year. Subsidization of the losses of state-owned enterprises is the main reason for government borrowing. In addition, the amount of hidden losses for state-owned enterprises mounts each year. No accurate figures are available, but a representative sampling shows hidden losses to be at least 50 percent more than open losses. State-owned enterprise losses frequently conceal losses of state-owned assets. This, together with the inflation of state-owned enterprise consumption funds, as well as difficulty in controlling administrative expenses, create inflationary pressures.

4. Uneven Regional Development and Currency Inflation

Uneven development between one region and another may create a conflict between regional development policies and central government macroeconomic policies. Rapidly developing regions want to develop even faster, and slowly developing regions want to catch up with the rapidly developing regions. Therefore, when speed of development collides with a rise in prices, no region wants to sacrifice its own speed of development to maintain prices nationwide. A certain amount of difference in development between one region and another is beneficial to the overall economic development of the country, but the speed with which high prices in fairly rapidly developing coastal areas are telegraphed throughout the country is far faster than the speed with which capital, technology, and human talent is dispersed to relatively slowly developing inland areas. Take the four neighboring provinces of Guangdong, Guangxi,

Guizhou, and Yunnan in south China for example. The 1992, the GNP growth rate for these provinces was 22, 18.3, 9.2, and 10.9 percent respectively, but in 1993, there was no marked difference among them in the rise in prices. Prices rose a respective 18.2, 18.9, 14.8, and 18.9 percent. Statistics show the more than 60 percent increase in production, investment, and consumption nationwide during the past two years has been spurred by the coastal region, but differences in the degree to which prices have risen nationwide has been slight. The widening of uneven development between one region and another does not translate into high speed development in every more backward region, but inflationary pressures are transmitted throughout the country.

Actually, the investment scale problem, the state-owned enterprise problem, and the uneven regional development problem frequently coalesce to affect inflation. This effect is reflected in a concentrated way in a clash between macroeconomic controls represented by the central government and other than macroeconomic controls represented by local governments and enterprises. The macroeconomic control goal of the central government is the most effective allocation of total resources, but the goal of local governments and enterprises is maximization of partial and local profits and interests. Today when our system is not yet operating entirely smoothly, and when the central government does not have complete information because of the lag in the separation of administrative powers and transformation of government functions, as well as because of the level-by-level administrative system structure this creates, conflict between macroeconomic and other than macroeconomic objectives is often a deep reason for inflation. This conflict is manifested in many different ways, such as slow progress in readjustment of various economic structures, the frequent occurrence of local governments and enterprises counterpressuring banks to issue more currency, as well as the long-standing negative interest rate problem.

The harm caused by long-standing negative interest rates should be addressed here. First of all, the existence of negative interest rates damages the normal financial order and inevitably has an adverse effect on the socioeconomic order. Second, negative interest rates encourage state-owned enterprise dependence, thereby obstructing active promotion of enterprise reform. Third, negative interest rates abet inflation of the scale of investment. They are detrimental to reform of the investment system. Fourth, negative interest rates not only hurt the real interests of the public, but generate a feeling among the public of even worse to come, thereby artificially increasing inflationary pressure.

In 1993, the inflation problem became quite glaring. This was the third peak year for price rises since reform and opening to the outside world, and during the first two months of 1994, prices continued to rise. The price rise momentum abated somewhat during March and April only to resume after June. A high rise in prices for

the whole year became a foregone conclusion. Not only were prices rising faster than in 1993, but 1994 might become the highest price rise year since reform and opening to the outside world. However, we cannot simplistically compare the price rise situation for 1993 and 1994 with the inflationary situation during 1988 and 1989. We have to make a concrete analysis: First of all the time sequencing of the two price rises was different. In 1989, all prices rose at the same time; thus, the impact on society was very great. In 1993-1994, it was mostly prices of the means of production that shot up, and in 1994, it was mostly food prices that rose greatly while prices of the means of production remained steady, some of them even falling. The difference in time sequencing limited the impact of price rises on social life to different sectors at different times. Second, the reasons for the two price rises differed. In 1988-1989, it was investment and consumption inflation in combination. Serious shortages set off a panic buying spree that created passive price rises. In 1993, however, investment inflation alone set off a very rapid rise in prices of capital goods. In 1994, the rise in prices was attributable to a very large extent to the increase in prices of certain commodities made purposely in connection with price reform. The rise was particularly attributable to the effect of grain prices. The equanimity with which the public viewed these two price rises also differed greatly. Today the public exhibits a much greater degree of calm. However, the greatest difference was in the different regulation and control measures adopted and the intensity with which they were applied, as well as the different results of regulation and control. Because the intensity of regulation and control has been substantially correct during the present period of price rises, the possibility of a market slump or too great a slowing of economic growth has declined greatly, and prospects for a "soft landing" have increased greatly. In 1994, we were in a macroeconomic environment that was vastly more advantageous than in 1988-1989. Thanks to the efforts of all concerned, the rise in prices during 1995 will be markedly lower than during 1994.

Of course, it cannot be denied that the inflation problem today is truly quite severe. It positively cannot be treated lightheartedly. The deep reasons for this high inflation lie in various problems in our system that cannot be solved completely within a relatively short period. In addition to the effect of the agricultural problem, the lingering influence of the former egalitarian "large common pot" system exists to substantial degree. In the situation of soft budget restraints that exists in some local governments and state-owned enterprises, the only way to attain high speed increase in production is to rely on high investment in the building of additional capacity to expand reproduction. A large investment but no commensurate rise in productivity after investment creates a large amount of investment that yields either no, or only low, results. In addition, the economic returns of a substantial number of state-owned enterprises are poor, their losses serious. When problems occur, they have to turn to the government. The government is

forced to issue currency, which is bound to create inflation. Simultaneous with inflation stemming from deep reasons is a series of not so deep problems that intensify the degree of price fluctuations. Therefore, a concrete analysis must be made to determine the factual basis of the present inflation. This is to say, the rise in prices for good reason must be distinguished from the rise in prices for no good reason. The lag effect on price rises of consecutive years of high investment and the effect of nongrowth on prices rises must be analyzed. What the public can and cannot tolerate must be analyzed, and the surface and deep reasons for inflation must be analyzed, too, with treatment applied that heals both the symptoms and the underlying causes.

The foreign exchange and foreign trade reforms, the finance and banking reforms, and the tax collection reforms that have begun to be inaugurated in 1994 have already scored marked success. They improve our macroeconomic regulation and control capability and our ability to hold down inflation. However, these reforms are, after all, system reforms outside the goods production domain; thus, they cannot solve the deep reasons for inflation that exist within the goods production domain. This is also the reason that the many actions that are now being taken to control inflation, such as price ceilings, go far in treating the symptoms, but cannot cure the reasons for inflation. On the other hand, achievements in foreign exchange and foreign trade reform, finance and banking reform, and taxation reform create favorable conditions for reform of the system in the goods production domain. Both the CPC Central Committee and the State Council have proposed the beginning of reform focusing on enterprises in 1995. This is an extremely correct policy. We must find means to solve the problems in agriculture, move ahead promptly and pervasively with state-owned enterprise reform and investment system reform, and thoroughly transform government functions if we are to free ourselves from the high inflation caused mostly by system problems that has dogged us for so long. We must begin to build a socialist market economy system to bring about sustained, rapid, and healthy development of the national economy.

Minister Predicts Progress in Residential Construction

HK2303055595 Beijing ZHONGGUO XINWEN SHE
 in English 1256 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (CNS)—Hou Jie, Minister of Construction, pointed out that this year the construction scale of real estate in China will not be smaller than last year. The market of real estate will develop steadily and healthily, and residential building will develop at a quicker pace. In 1994, floor area of newly constructed housing both in the country's urban and rural areas reached 780 million square metres.

Hou Jie said that under the macroeconomic adjustment of real estate in China, the development of real estate is healthy, and there are also great changes in investment in

this industry. The real estate industry will focus on the development of housing for ordinary residents this year, and construction of high class buildings will be put under strict control in the country.

According to a plan of fixed asset investment in China, the investment in real estates will be RMB [Renminbi] 166 billion; most of which will be used for construction of ordinary housing. This year, the State will provide loans for the "Comfortable Housing Project". At present, the Project is being carried out in many provinces and cities. It is aimed at constructing more cheaper housing with bank loans and favourable taxation treatments, so as to solve the housing problem in the country.

Floor space of buildings newly under construction this year dropped by more than 10 percent over the same period last year, and by 150 percentage points over 1993. However, as most of the present projects under development are continuations from the past two years, real estate development has still been maintained at a considerable scale.

Hou Jie said that in respect of using foreign capital for development of real estate, China will encourage more foreign businessmen to invest in construction of ordinary housing. China has seen a reasonable structure of investment in real estate at present, which will be favourable for the industry's healthy development in the future.

Ministry Predicts Greater Demand for Buses, Trucks

OW2303093095 Beijing XINHUA in English 0911
GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—China will need 500,000-600,000 city buses annually during the five years toward 2000, the Ministry of Construction predicted.

During the period, the number of vehicles used for environmental sanitation will grow by an average of 6,200 a year because half of the 30,026 such vehicles in use are outmoded and outdated, and have to be replaced.

Meanwhile, about 700 vehicles are needed for municipal engineering projects annually.

The annual demand for vehicles used in parks is about 500 units, and that for liquefied petroleum gas tank trucks 1,000 units.

Entrepreneurs To Promote Investment in Poor Areas

OW2203140795 Beijing XINHUA in English 1242
GMT 22 Mar 95

[FBIS Transcribed Text] Guiyang, March 22 (XINHUA/OANA)—Some of China's most famous millionaires have come up with a plan to relieve poverty in southwest China's Guizhou Province.

Zhangyan, chairman of the board of the Taidao Group in east China's Anhui Province, donated seedlings worth 150,000 yuan to establish 20-ha [hectare] peppermint bases, which are expected to create 270,000 yuan in economic returns each year.

Zhang intends to expand the peppermint-growing land to about 3,300 ha, and build a plant to process peppermint.

In 1994, 10 well-known self-employed entrepreneurs proposed that they make investments in remote, poverty-stricken areas, mostly in northwest and southwest China, to develop natural resources, set up businesses, and provide personnel with expertise, after the government launched a drive to help 80 million people get rid of poverty.

The entrepreneurs' plan was praised as being a "glorious cause", which, unlike donations, was "a cooperative development effort aimed at creating economic gains and serving mutual interest", according to Hu Deping, vice-chairman of the All China Federation of Industry and Commerce.

About one-eighth of those who suffer from poverty live in Guizhou. Last November, 12 entrepreneurs made a tour of Guizhou and came up with 43 ideas for industry, plantations, breeding, medicines, tourism, trade, and personnel training, most of which were put into operation shortly.

Zhang Zhiting, head of the Sino-US Guizhou Shenqi Pharmaceutical Co., Ltd. invested 10 million yuan in turning a Pharmaceutical Factory in Bijie area into a share-issuing company, with the idea of raising the annual output to 50 million yuan from some 700,000 yuan at present.

Liu Yonghao, general manager of the Xiwang (Hope) Group in southwest China's Sichuan Province, put 15 million yuan in a fodder-processing factory, which will turn out 200,000 tons of high-quality fodder, worth 300 million yuan, annually within five years.

This poverty-elimination program has also drawn the attention of overseas Chinese. So far this year, Wang Mingxing, a member of the National Committee of the Chinese People's Political Consultative Conference, has invited overseas Chinese from Indonesia and Singapore to tour Guizhou. Wang will organize overseas entrepreneurs to make the third investment tour in Guizhou this April.

Government To Boost Integrated Circuit Industry

OW2303012595 Beijing XINHUA in English 0057
GMT 23 Mar 95

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—China plans to set up another 10 to 20 integrated circuit design and application development centers to promote this sector in the next few years.

It is also learned that the development of design and application has been nominated as a breakthrough project in the integrated circuit industry. In the past few years 10 design and development centers have been set up.

In 1994 China produced about 260 million integrated circuits, a sharp increase of 50 percent over 1993's figure. This year it is estimated that the country is expected to produce 300 to 400 million integrated circuits.

Officials of the Ministry of the Electronics Industry said that China's integrated circuit industry, though developing rapidly, is far from satisfying the domestic market. In addition, China's technology in this field is some 15 years behind that of the West.

Last year China's demand for integrated circuits was 1.16 billion, while in the year 2000 the figure is estimated to reach two billion to three billion.

At present, China has five backbone integrated circuit enterprises, a dozen specialized plants, and more than 20 design, development and research units, according to statistics.

According to an official blueprint, China will have the capacity to produce one billion integrated circuits annually at the end of this century.

Three Gorges Project To Develop Basic Industry

HK2303055395 Beijing ZHONGGUO XINWEN SHE in English 1412 GMT 22 Mar 95

[FBIS Transcribed Text] Hong Kong, March 22 (CNS)—The Three Gorges Project will exert a great influence on the society and economy in the region. Basic industries including traffic, communication and power will be developed energetically, said Tang Zhangjing, Director of Migration and Development Bureau under the Three Gorges Project Construction Committee of the State Council.

According to sources, traffic and transportation framework has been formed in Three Gorges region with the shipping in the Yangtze River as its core. With the construction of the Three Gorges Project, immigration and the shift of urban areas as well as the further development in resources, demand for transportation and telecommunications will increasingly expand. Therefore, it is urgent and of crucial importance for Three Gorges region to quicken its construction of traffic and transportation facilities and connect the sector with the country's traffic and communication network.

In shipping sector, some berths are considered to be augmented respectively in Chongqing, Beiling, Wanxian County and Yichang with a total eight million handling capacity added.

In railway sector, Daxian-Wanxian railway and Nanchuan-Beiling local railway are planned to be constructed, of which Wanxian-Daxian railway is linked to Xiangfan-Chengdu railway.

In highway sector, a highway along the Yangtze River as well as two highway bridges cross the River in Beiling and Wanxian County are arranged to be established.

In civil aviation sector, Chongqing Jiangbei Airport will be further expanded and improved and more air routes and flights will also be opened. At the same time, to quicken the construction of Yichang's Huanglongsi Airport and make preparations for setting up Wuqiao Airport in Wanxian County. [sentence as received]

The main source of power in Three Gorges area lies on hydroelectricity and large, medium and small-sized hydropower stations are combined to supply electricity. By the year of 2000, a batch of power stations will be completed including the Gudongkou Power Station in Xingshan County with installed capacity of 57,000 kilowatts, power station in Yubei Mountain of Wanxian County with installed capacity of 80,000 kilowatts, hub of water conservancy in Shibao of Fengdu County with installed capacity of 97,000 kilowatts, as well as a power station in the estuary of Fuling's Furong River and the Yujiankou Power Station in Fengdu County. The thermal power depends mainly on local coal resource and the stage two of Baihe Power Plant in Kaixian County and stage two of Fuling's Longqiao coal-fired power plant are scheduled to be set up.

China Section of Asia-Europe Cable Completed

HK2303063695 Beijing ZHONGGUO XINWEN SHE in English 0956 GMT 22 Mar 95

[FBIS Transcribed Text] Urumqi, March 22 (CNS)—Optical fibre cable from Xinjiang's Urumqi to Korgas has been recently completed, and the China section of the Asia-Europe optical fibre cable has been joined up.

Starting from Shanghai in the east and ending in Germany's Frankfurt in the west, the cable is 16,000 kilometres long and passes through 11 countries. It is so far the longest optical fibre cable in the world as well as the "communication aorta" which connects Asia and Europe. The 5,000 kilometre long China section starts from Shanghai in the east and ends at Korgas Port in Xinjiang's Ili Prefecture in the west. The Shanghai-Xian section was opened for service in 1993, while the Xian-Lanzhou-Urumqi section has been operational since September, 1994. The linking of the Urumqi-Korgas optical fibre cable marks the establishment of a communication transmission aorta in China's east and west direction, and it is significant for improving Xinjiang's investment environment and developing its economy.

Finance & Banking

Experts on Controlling Fixed-Asset Investment

HK2303032395 Beijing ZHONGGUO XINWEN SHE in English 1319 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (CNS)—Some economic experts in Beijing have recently reviewed and

analyzed the economic situation in China and voiced the following views. Since last year, China has introduced a series of macroeconomic adjustment and control policies to strictly regulate new development projects, especially projects launched by local governments, and to revamp the finance and real estate markets with a view to bring the growth in fixed assets investment down to a more reasonable level. The adjustment and control measures have proved effective at the initial stage. However, to judge the situation of the fixed assets investment markets and to control the size of investment projects across the whole of China is by no means an easy task.

According to the latest statistics, the aggregate amount of investment in fixed assets all over China in 1994 was 1,592.6 billion yuan, which saw an increase of 27.8 percent over 1993, but the 1994 figure, nonetheless, was 30.8 percent short of 1992's fixed asset investment. Excluding the inflation factor, the net growth was about 16 percent. The investment projects included state-owned projects, Sino-foreign joint ventures and co-operation projects and the aggregate capital invested amounted to 1,135.5 billion yuan, up by 34.2 percent, but the growth rate was again an actual drop of 26.6 percent over the previous year.

For collective economy both in urban and rural areas, the amount of capital invested was 275.8 billion yuan, up by 23.6 percent but the growth rate had in fact receded by 30.3 percent. On the other hand, people in the urban and rural areas together contributed a total capital investment of 181.4 billion yuan, up by 22.9 percent with a growth rate of 7.1 percent up.

Experts point out that based on the present situation, in 1995, the fixed assets investment market will encounter two major stumbling blocks that are contradictory to each other. The first one comes from efforts to curb the sizes of investment and to minimize the growth rate, whereas the second block is a result of the pressure to expand the sizes of investment projects. The former mainly originates from the state's macroeconomy policy. Because of hyper-inflation in 1994, the focus of the state's macroeconomic measures in 1995 will rest on suppression of inflation while controlling the size of investment in fixed assets is part of the essential macroeconomic control policy.

The state has put a ceiling to the size of investment in fixed assets in 1995 at 1,700 billion yuan, which is 9.7 per cent above the 1994 figure, but the absolute increase value is not even up to half of the growth value in 1994. It is a very difficult task to control the size of investment from growing year after year.

The second stumbling block is reflected in three different areas. First: local governments and enterprises need to expand sizes of their investment projects. In order to realize their expansion programmes, local governments had in the second half of 1992 as well as 1993, initiated a large number of development projects and some of them require further capital financing until 1995.

Although the number of projects started in 1994 was down by 7 percent compared with 1993, projects cut were mainly state-run projects while local projects had seen no sign of recession. In 1995, the pressure of excessively expanded investment resulting from projects that were started a few years ago is much greater than in 1994 as the capital cost is rising year after year.

Second: There is a pressing need for productivity as a result of expanded investment. As the size of investment has expanded greatly in recent years, the productivity of domestic industries has correspondingly uplifted. Out of these industries, the increase of productivity of heavy industries need, to a very large extent, further capital injection. If there is no further capital injection, all the production facilities will be wasted.

Third: The amount of savings deposits is increasing sharply and it has created certain impacts on expansion of investment projects. In recent years, the average income of the people gradually rose, but the consumption level has been falling year after year whereas the weighing of savings and investment projects is constantly on the rise. In 1994, the aggregate amount of deposits kept in banks in cities, towns and villages reached 20 billion yuan, on top of national bonds worth 100 billion yuan and shares and securities worth 10 billion yuan.

It is estimated that the net growth of savings deposits will hit 500 billion yuan in 1995, making the aggregate amount of deposits kept in banks a staggering 2,500 billion yuan while more than 80 percent of the money is placed in call deposit accounts. In order to gain more income from interests, the banks, which are commercial and profit-making organizations, will be keen to have their capital loaned out. Assuming that 40 percent of the increased deposits is utilized to finance fixed assets development projects, the net growth amount will become 200 billion yuan. Moreover, urban residents will wish to spend more money to buy houses or build their own houses.

In the above circumstances, expansion of investment projects in 1995 will face a great deal of opposition. A senior source points out that the state will adopt control measures in three major areas to strictly control sizes of investment projects from expanding exorbitantly.

1. New development projects, especially processing industries, high-priced projects that do not have potential 93 markets, as well as large and medium-scale projects, will be scrutinized very closely. [sentence as received] Local governments will also be asked to be very wary of small-scale projects when they are submitted for approval.

2. The sources of the capital will be carefully controlled. All the banks will be asked to provide loans, not exceeding the limit laid down by the State, to developers investing in fixed assets projects.

3. Investment in real estate projects will be under much tighter control in order to curb investment in this field from growing too quickly, and all loans provided for real estate projects will be under rigid control in line with the State credit policy and State real estate development and investment plans.

It is a very difficult job to contain the aggregate invested capital within 1,700 billion yuan. In order not to create extreme fluctuations in the finance system and miss the golden opportunity of rapid economic development, the State will, as far as possible, avoid any hardline policy to meddle with the market. At the same time, as development of fixed assets investment projects is closely related to productivity of the current year, it is estimated that the size of investment in 1995 will be in the range of 1,968 to 2,016 billion yuan, with 1,992 billion yuan as its median value.

RENMIN RIBAO Views Huge Savings Deposits

HK2303092995 Beijing RENMIN RIBAO In Chinese
24 Feb 95 p 2

["Economic Viewpoint" column by staff reporter Shi Mingshen (2457 2495 1957): "Where Should Money Be Spent Again?—Thoughts on 2 Trillion Yuan of Savings Deposits"]

[FBIS Translated Text] Xiao Wang, who works at a certain unit in Beijing, has not given his wife his pay packet for months. It is because an automatic teller machine has been installed at the front door of his unit and the employees' pay is transferred into their accounts by the bank on time and can be drawn with cards. Xiao Wang said: "I have not drawn any of my pay yet! Now that I have a better income, there is no need for me to take it out immediately. So I just keep it on deposit."

There are quite a few people who have deposited their money in the same way as Xiao Wang. In 1994, with more cash income for residents, the opening of value-guaranteed savings deposits, and the popularization of new business lines such as the automatic pay transfer, savings deposits have increased substantially. By the end of last year the savings balance totalled 2.1 trillion yuan, an increase of over 630 billion over the beginning of last year or 41 percent. It equalled the total amount of increases in 1992 and 1993. A quick increase in savings deposits undoubtedly manifests the improved living standards of the people and a rich source of credit funds for banks. However, it also reflects some contradictions in our present economic life.

Where Should Money Be Spent Again?

Although there is a large collection of beautiful things on the market, consumers are still often dissatisfied. Ms Zhang is a retired teacher who has been standing in front of a class all her life and has been working hard for decades. She wants to buy an armchair so that she can read books and newspapers comfortably at home. Her

son went shopping with her several times but she failed to find one that she liked. Ms Zhang complained: "These days the quality of commodities is not to be counted on." Her son was also disappointed, saying: "It was not easy for my Mom to make the decision. But she cannot spend the money even though she wants to."

Here is another example to show that the channel for individual investment is so narrow and novel financial instruments are so few that even Grandpa Dai often sighs that, with prices rising so quickly, money has become less valuable. So he has been thinking of how to make more money with the money he has in hand. When new shares were issued in Beijing last April he invested all his savings in shares. But he had bad luck. The stock market fell more than it rose. He could not help grumbling to himself: "I will lose the money for my retirement if it goes on falling." Having no way out he sold all his shares and put his money in a current deposit account. However, he is not willing to give up. He still thinks all the time: What is the best way to invest my money?

Banks should be happy about the increase in savings deposits, should they not? But it is not so. More savings deposits do not mean more loans because of the restrictions on the bank credit scale. However, interest must be paid out on time, said a comrade from the Industrial and Commercial Bank. The high subsidy rate for value-guaranteed savings deposits has increased the interest payments by the banks in 1994 and the Industrial and Commercial Bank paid an additional sum of 300 million yuan for interest last year. Comrades working in banks are also worried: Now people in various parts of the country complain about the shortage of funds. In reality, funds are not properly used resulting in low capital return. How then can they achieve high returns from the bank savings they have absorbed through hard work?

Expand Consumption

Some experts point out that in order to change the situation whereby the common people put their money into savings passively, it is necessary to promote and guide consumption and improve people's level of scientific consumption. On the other hand, we should develop agriculture in a big way and develop new products and new methods of purchases and sales so that products produced by factories have buyers and users. At the same time, it is necessary to adjust the consumption pattern and offer residents guidance to help them transfer part of their consumption to housing, education, travelling, transport, and so on.

The per capita income in our rural areas has steadily increased in recent years. It is worthwhile to open up the market in the rural areas as there is a potential need for household electrical appliances. While sales of big articles of daily use like color televisions, refrigerators, washing machines, and radio cassette recorders in the urban market tend to become saturated, personal computers, telephones, and hi-fi's are appearing in the homes

of ordinary people but have not formed the main expenditure for the overwhelming majority of families. The prices of commercial houses and private cars are too high for ordinary people to purchase and, although ordinary people want to buy, they cannot afford them. Not long ago, more than 750 commercial apartments were put on the market for sale and sold out in a couple of days because their prices were moderate. Today, there are altogether 500,000 villas and houses with a total floor space of 50 million square m waiting for buyers in our country. So it is imperative under the circumstances to develop low price commercial housing to promote consumption. Experts predict that, from now on, market competition will mainly focus on the quality, function, style, and price of goods as well as the services accompanying them. Many residents have made clear their demands for modern purchases. According to a survey conducted by the Meidelan Information Company in Beijing, 41 percent of the residents required that stores open their shelves so that customers can choose what they want, 22 percent called for delivery services, 18 percent want to purchase by telephone, while 14 percent want a service which will allow them to pay for orders in advance and the preferential services which come with a membership card. Since last year, quite a number of commercial enterprises have used the methods of "promoting sales through friendly relations" and "bringing convenience and benefit to the people" as important means to attract customers.

In order to push forward the adjustment of the consumption pattern, some sales units and financial institutions open business lines such as purchase by installments, mortgage loan on private deposit slip, and mortgage loan on apartments. These business lines enable consumers to purchase the houses, air conditioners, and hi-fi's they want and enjoy the pleasure of consumption in advance. At the same time these business lines also enable producers and sales units to promptly sell their products and quicken fund turnover. It is now high time to promote purchase by installments as the overwhelming majority of families in our country have stable jobs and incomes.

Widen Investment Channels

Given the current low returns and high risks of bank credits, an effective way to cope with the fund shortage of the state and enterprises is to widen the channels for individual investment in a proper way. Last year, state treasury bonds worth over 100 billion yuan were issued smoothly. The enterprise bonds of some local enterprises were sold out immediately after they were put on sale. This fully shows that investment potential and enthusiasm among the masses exist. In addition to treasury bonds, enterprise bonds, and stocks, people also want society to offer them more and newer channels for investment.

According to the Beijing Municipal Statistical Bureau, 48 percent of the residents hope that the society can set up trust financial investment institutions which will

choose for investors the best investment portfolios from a series of combinations of risk and profit to reduce the risks as much as possible. What the residents expect are actually kind of "mutual funds," namely, the various kinds of investment funds which have appeared since 1992. It is a very popular securities investment instrument in the world, a way of investment under which the funds which are collected from a lot of people are handled by professionals. It has the characteristics of specialized management and investment flexibility. To most wage earners and "people who go to work daily," investing in mutual funds is a fairly ideal choice. At present, there are over 70 investment funds with a face value of nearly 8 billion yuan. However, experts say that funds in our country are mostly comprehensive in nature and their investments are quite scattered. In the future, we should vigorously develop special funds for energy, transportation, government loan, agriculture, and communications to collect the idle money in society and use it in those construction projects the state needs urgently. At the same time, residents can obtain higher investment returns at a much lower risk coefficient.

Bank Official on Lesson From Barings' Collapse

HK2303092195 Beijing CHINA DAILY in English
23 Mar 95 p 4

[By Fu Jian: "Rethink Needed To Avoid Chaos"]

[FBIS Transcribed Text] Appeals have been made to strengthen regulations on the Chinese financial derivatives market after the collapse of the British bank, Barings, and the coincidental disruption that occurred in domestic futures transactions, particularly on the Shanghai Securities Exchange.

State authorities should stipulate standards, which should be followed strictly by securities exchanges to prevent disruption similar to that which occurred in the Shanghai Securities Exchange last month, experts suggest.

"Supervision of traders' capital and daily operations should be strengthened to guarantee the safety of transactions," said Fang Dongkui, researcher with the Bank of China's Institute of International Finance.

"What's more important, internal risk control systems should be established in commercial banks and other financial institutions, so that illicit transactions can be eliminated at their root," Fang said.

On February 23, the Shanghai Securities Exchange, China's largest, experienced hefty volumes of transactions accompanied by radical fluctuation in prices in the trading of the 3-year-term treasury bond issued in 1992.

Some securities brokerages companies collaborated to sell 7 million units of contracts, which had a total face value of 140 billion yuan (\$16 billion), to beat down the price of the 1992 treasury bond. They, having speculated on a drop in the price of the bond, faced huge losses when the price actually went straight up.

According to the Exchange's principles, traders must pay margins at the rate of 1 percent of face value for each contract. Thus, 1.4 billion yuan (\$167 million) was required for the 700 million unit transaction. But it was later discovered that the money had not been paid before the transaction was carried out.

To prevent the illicit activity from creating further chaos, the exchange suspended trading in treasury bonds futures and declared invalid some transactions. Further handling of the issue is still to be decided by the China Securities Regulatory Commission (CSRC).

"The disruption calls for stricter and more equitable principles to be adopted by authorities to regulate the traders and exchanges," said Fang.

The CSRC has sketched out tighter administrative measures to fight illicit activities in the securities market. Its plan includes re-examination of exchanges regarding their authority to conduct treasury bonds futures trading, review of the trading regulations stipulated by the exchanges, and speeding up of related legislation.

A law on futures trading is being drafted by the relevant departments and will be submitted to the National People's Congress for deliberation.

Despite the disruption in the Shanghai Securities Exchange, treasury bonds futures, as well as other financial derivatives, should be further developed in China to help investors hedge their risks, said Fang.

It is not the financial derivatives themselves but the speculation in the financial derivatives market that hurt the healthy development of the market, as happened to Barings Bank, he said.

The 233-year-old British merchant bank was ruined by speculation in Japanese stock futures trading on the part of the manager of its Singapore branch, Nick Leeson.

The fact that Leeson had managed to dispatch enormous sums of money from the bank headquarters to support his speculative activities indicates that the supervisory system of Barings Bank was ineffective, Fang said.

"This is a good lesson from which the fledgling Chinese financial derivatives market should learn much," he said.

Financial derivatives trading did not start in China until several years ago. Among the various futures and options, treasury bond futures have made up most of the trading volume.

Many Chinese financial institutions had business with Barings Bank. Since 1992, the bank has held a certain amount of B shares—one of the stocks in China which is issued exclusively for foreign investors. In 1993, Barings got a special transaction seat in the Shanghai Securities Exchange.

But since the Chinese financial institutions shut off their business with Barings in time, the collapse of the bank did not cause them loss.

Since Barings collapse, all the business of the merchant bank has been taken over by Internationale Nederlanden Group (ING).

Tianjin Bank Reports Growth Since Issuing Stocks

OW2303090395 Beijing XINHUA in English 0830 GMT 23 Mar 95

[FBIS Transcribed Text] Tianjin, March 23 (XINHUA)—The first commercial bank to issue stocks in this northern port city reported a good growth since it adopted the stock system three years ago.

The bank is a branch of the Bank of Communications, which was founded in 1987 and is one of four national commercial banks in China, with 90 domestic branches and five overseas agencies, and fixed capital of 10 billion yuan.

In 1992, the bank became the country's first commercial bank to experiment with issuing stock, and is leading the country in introducing the use of stocks.

By the end of last year, the branch in Tianjin had assets of 3 billion yuan and 220 million yuan in profits. It implemented a market-oriented development strategy and international banking practice when it began issuing stock in 1992, according to the bank vice president, He Qishan.

Unlike the practice of opening branches in accordance with governmental administrative districts that was common among state-run banks, the Tianjin bank opened up new branches at business centers and in busy shopping districts.

It also added a dozen new services such as call deposits and housing mortgages and loans.

The bank's renminbi deposits increased at an annual rate of 40 percent in the past three years, and its international accounts amounted to five percent of the city's total.

The bank has also set up a special committee in charge of equity-debt and an inspection system.

It issued 7 billion yuan in loans to industrial enterprises that had steady markets for their products over the past three years, and has a 96 percent return rate on its loans.

U.S. Investment Bank Pledges Cooperation

OW2203164295 Beijing XINHUA in English 1453 GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—Sherman Lewis, vice-chairman of the US finance giant Lehman Brothers, said here yesterday that the firm will continue to strengthen its co-operative relationship with China.

"The firm's widely-publicized disputes with a subsidiary of the China Metals and Minerals Import and Export Corporation and the China International United Petrochemicals Company are purely commercial issues that have not affected and will not affect its business in China," Lewis said.

"I can see a bright future for China's economic development, and it has already made impressive strides in developing its financial sector as well as infrastructure." He noted.

Established in 1850, Lehman Brothers is one of the few international investment banks that entered China as early as at the beginning of the 1990s.

***Article Analyzes Profitability of State Banks**

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[MANAGEMENT WORLD] in Chinese No 6,
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[Article by Tian Hanqing (3944 3352 0615) and Sun Lizhao (1327 4409 3564), School of Economic Management, Qinghua University: "Bad Loans Threaten Profitability of State Banks"]

[FBIS Translated Text]I. Profitability of China's Four Leading State Banks

1) The size of China's four leading state banks.

The size of a bank mirrors its strength and risk-taking capacity and therefore has a major impact on its profitability. Internationally a commercial bank's core capital and assets are the two major indicators of its size. The rankings of China's four leading state banks in the list of top 1,000 banks prepared by *The Banker*, a British publication, are given in Table 1.

Table 1. How China's Four Major State Banks Rank Among Leading Banks in the World

	End of 1991				End of 1992			
	Core Capital (in millions of dollars)	Ranking	Assets (in millions of dollars)	Ranking	Core Capital (in millions of dollars)	Ranking	Assets (in millions of dollars)	Ranking
Bank of China	9,837	16	162,987	29	9,216	19	197,301	26
Industrial and Commercial Bank of China	8,833	19	205,642	22	10,624	13	249,253	18
Construction Bank	6,326	35	123,246	46	6,380	39	141,936	39
Agricultural Bank	5,591	42	124,173	45	5,583	44	146,572	36

Source: *The Banker*, 1992, 1993 Note: Core capital includes net bank profit for the year in question.

The data in Table 1 show that whether in capital or in assets, China's four major state banks must be counted among the world's top 50 banks. In 1991 and 1992, most top 10 banks in the world were Japanese institutions; American banks were all ranked below the 25th spot. In terms of size, therefore, China's four major state banks have as much economic muscle as and display the characteristics of leading commercial banks in the West. This lays a solid foundation for their participation in global competition.

2) Pretax profitability of China's four leading state banks.

In view of the fact that countries have different tax systems, pretax return on assets [ROA] and pretax return on equity [ROE] are commonly used in nation-by-nation comparisons as a measure of a bank's profitability.

a) Pretax ROA. pretax ROA in this context means pretax net income relative to the average assets for the time period concerned.

Tables 2 and 3 list the pretax ROA of China's top four leading state banks as well as those of commercial banks in the West.

Table 2. Pretax ROA of Banks (percent)

Year	1986	1987	1988	1989	1990	1991
Industrial and Commercial Bank of China	2.26	2.40	1.83	2.11	1.55	1.55
Bank of China	0.99	0.98	0.84	0.83	0.82	0.85
Construction Bank	1.89	1.86	1.60	1.50	1.38	1.10
Agricultural Bank	1.23	1.46	1.39	1.00	0.27	
Royal Bank of Canada	0.70	0.93	1.28	0.83	1.33	1.20
Barclays Bank			1.45	0.60	0.58	0.39

Table 3. Average ROA of Commercial Banks in Western Nations (percent)

	1986	1987	1988	1989	1990	1991
United States	0.80	0.28	1.14	0.78	0.73	0.77
Japan	0.52	0.60	0.64	0.46	0.36	0.32
Britain	1.19	0.28	1.51	0.21	0.71	0.41
France	0.35	0.35	0.38	0.29	0.25	0.29
Germany	0.81	0.60	0.73	0.70	0.63	0.58
Italy	1.20	0.82	0.91	1.09	1.18	1.23
Canada	0.75	0.97	1.33	0.70	1.22	1.17
Switzerland(1)	0.73	0.68	0.64	0.74	0.53	0.57
Spain	0.81	1.00	1.36	1.58	1.53	1.56

Note: (1) All banks. Source: *Financial Market Trends*, June 1993

It can be seen that compared with foreign commercial banks, the Chinese banks have a relatively high pretax ROA, putting them at or above the average level. But the profitability of the Chinese banks has been declining. In contrast, the profitability of foreign banks as measured by their pretax ROA shows no clear indication of which way it is headed.

b) pretax ROE. Table 4 presents the pretax net income relative to the average of beginning equity and closing equity.

We can see from Table 4 that among the four Chinese banks, the Industrial and Commercial Bank of China, the Bank of China, and the Construction Bank had a relatively high pretax ROE, while the Agricultural Bank had a lower pretax ROE. The pretax ROE of the Bank of China has been slipping while that of the Agricultural Bank fell sharply in 1990.

Table 4. Pretax ROE of Banks (percent)

	1986	1987	1988	1989	1990	1991
Industrial and Commercial Bank of China	35.29	40.05	34.05	45.08	34.23	35.28
Bank of China	31.09	31.08	25.22	19.60	18.22	20.39
Construction Bank	20.37	21.23	19.31	20.54	21.73	20.62
Agricultural Bank	13.19	16.13	17.00	13.64	4.40	
Royal Bank of Canada	16.59	20.97	32.38	17.84	29.46	24.47
Average of all U.S. commercial banks	13.14	4.96	18.38	12.69		

3) pretax profitability of China's four leading state banks based on cross-sectional data

For the four leading state banks, 1991 was the least profitable year since 1986. Tables 5 and 6 present the profitability and rankings of the world's top 1,000 banks for the 1991 fiscal year based on data from *The Banker*, a British publication.

Table 5. Profitability of Four Major Chinese State Banks for FY 1991

Capital Rank	Bank	pretax Income	pretax ROA (percent)	Rank	pretax ROE (percent)	Rank
16	Industrial and Commercial Bank of China	2,933	1.43	181	35.4	47
19	Bank of China	1,533	0.94	363	17.3	319
35	Construction Bank	887	0.72	441	14.4	406
42	Agricultural Bank	3	0.0	857	0.1	809

If we do a comparative analysis of the world's top 50 banks ranked according to core capital, we see that: 1) Using pretax ROA as a criterion, the Industrial and Commercial Bank of China ranked fourth; the Bank of China, 10th; the Construction Bank, 13th; and the Agricultural Bank, 49th; and 2) Using pretax ROE as a criterion, the Bank of Industry and Commerce ranks first; the Bank of China, 13th; the Construction Bank, 17th; and the Agricultural Bank, 49th.

Table 6. Profitability of Top 10 Banks and Other Foreign Banks (FY 1991)

Capital Rank	Bank	pretax Income	pretax ROA (percent)	Rank	pretax ROE (percent)	Rank
1	Sumitomo Bank	1,792	0.42	608	10.8	547
2	Dai-Ichi Kangyo Bank	1,420	0.32	704	9.0	616
3	Fuji Bank	1,341	0.32	700	9.2	607
4	Sanwa Bank	1,564	0.38	645	10.2	543
5	Agricultural Bank of France	1,599	0.52	535	11.5	514
6	Sakura Bank	1,131	0.27	743	8.6	631
7	Credit Suisse	1,225	0.67	469	9.5	593
8	Mitsubishi Bank	1,272	0.30	718	9.8	582
9	Barclays Bank	997	0.37	637	8.6	630
10	Deutsche Bank AG	2,280	0.77	427	21.2	215
18	Swiss Bank	1,005	0.66	472	11.2	527
29	Citibank	-221	-0.1	867	-3.1	819
30	Bank of America	1,873	1.64	125	10.07	76
36	Royal Bank of Canada	1,331	1.19	266	24.0	156

Note: Pretax income in millions of dollars

We can sum up the above comparative analysis with this conclusion: Compared with commercial overseas banks, the four Chinese banks (except for the Agricultural Bank) enjoyed a fairly high level of pretax profitability from 1986 through 1991.

II. Factors Determining Profitability of China's Four Leading State Banks

What is the composition of the relatively high profitability of China's four leading state banks? How does it differ from that of foreign commercial banks? The following is a more in-depth analysis.

Table 7. Net Interest Income/Average Assets of China's Four Leading State Banks (percent)

	1986	1987	1988	1989	1990	1991	Mean
Industrial and Commercial Bank of China	2.88	3.08	2.64	2.89	2.34	2.30	2.68
Bank of China	0.94	0.85	0.76	0.90	0.90	0.86	0.86
Construction Bank	1.95	1.99	1.88	1.78	1.67	1.44	1.79
Agricultural Bank	2.47	2.85	3.24	2.93	1.43	2.58	
Weighted average	2.09	2.18	2.05	2.11	1.63	2.01	

1) Factors Determining pretax ROA

Dividing every item in a commercial bank's profit and loss statement by the average of beginning assets and closing assets, we obtain:

pretax ROA equals net interest income divided by average assets minus bad loan reserves divided by average assets plus noninterest net income divided by average assets

Thus the data indicate that a bank's pretax ROA is determined by the three variables in the above formula. These three variables are analyzed separately below.

A) Net interest income. The net interest income divided by average assets of China's top four state banks was low compared with those of the Royal Bank of Canada and Barclays Bank of Britain and found itself somewhere between the 13th and 14th rankings in a listing in descending order of this value for the commercial banks of 21 OECD nations. Tables 7 and 8 present the net interest incomes of the commercial banks in China and some OECD nations as a percentage of their average assets.

Table 3. Net Interest Income Divided By Average Assets of Western Commercial Banks (percent)

	1986	1987	1988	1989	1990	1991	Mean
United States	3.34	3.34	3.50	3.49	3.45	3.57	3.45
Japan	1.27	1.20	1.17	1.00	0.90	1.11	1.11
Britain	3.17	3.19	3.25	3.14	2.95	2.97	3.11
France	2.47	2.35	2.29	2.01	1.90	1.74	2.13
Germany	2.58	2.30	2.19	2.04	2.04	2.16	2.22
Italy	3.26	3.15	3.27	3.30	3.41	3.54	3.32
Canada	2.75	2.79	3.21	3.22	3.00	3.15	3.02
Switzerland	1.37	1.30	1.38	1.40	1.36	1.56	1.40
Spain	3.74	3.91	4.14	4.13	4.02	3.96	3.98

Table 9. Bad Debt Reserve/Average Assets of Construction Bank(percent)

Year	1988	1989	1990	1991
Data	0.052	0.012	0.010	0.015

Further comparative analyses show that the Chinese banks did no better than foreign banks as far as their net interest income relative to their average assets was concerned, but mostly hovered at the average level. Therefore, net interest income is not a major explanation of the relatively high pretax ROA enjoyed by the four Chinese banks. On the other hand, it is not the obvious drag that net interest income is in the case of Japanese banks.

B) Bad debt reserve fund It was not until 1988 that a bad debt reserve fund came into existence in China. Under the old accounting system, little money was set aside as contribution to a bad debt reserve fund. No system existed for writing off loans that had gone sour. Uncollectible loans remained on the books and continued to be

counted as part of a bank's assets instead of being cancelled. Since Chinese banks have meager bad debt reserves, alone among the financial reports of the four major Chinese banks included in the Chinese Financial Yearbook, only that of the Construction Bank contained this item. (See Table 9)

Of the bad debt reserve fund withheld by each of the four Chinese banks, currently 38 percent is retained by the bank and 62 percent is submitted to the national treasury. So far it has not been tapped to finance the write-off of bad loans.

In the West, commercial banks withhold a larger portion of the average assets as bad debt reserve, as Table 10 indicates.

Table 10. Withholding for Bad Debt Reserve Fund As Percentage of Average Assets by Foreign Commercial Banks by Year

	1986	1987	1988	1989	1990	1991	Arithmetical Mean
United States	0.78	1.27	0.56	0.97	0.95	1.01	0.92
Japan	0.04	0.03	0.05	0.04	0.03	0.07	0.04
Britain	0.54	1.53	0.31	1.60	0.95	1.32	1.04
France	0.61	0.53	0.52	0.53	0.50	0.52	0.54
Germany	0.55	0.44	0.25	0.42	0.53	0.47	0.44
Italy	0.58	0.49	0.56	0.51	0.54	0.50	0.53
Canada	0.75	0.68	0.60	1.16	0.36	0.54	0.68
Switzerland	0.51	0.51	0.47	0.54	0.55	0.96	0.59
Spain	0.79	0.91	0.80	0.61	0.59	0.72	0.74

In a foreign commercial bank, the bad debt reserve typically accounts for over 0.5 percent of its average assets. Between 1985 and 1991, the bad debt reserve funds of the Royal Bank of Canada and Barclays Bank, two renowned banking institutions, hovered between 0.31 and 1.22 percent of average bank assets, respectively, but mostly

around 1 percent, significantly higher than in China. Alone among all the Western nations, only Japanese [as published] banks withhold a tiny percentage for their bad debt reserve funds. That is precisely the reason why the very same Japanese banks now find themselves in dire financial straits. The four Chinese banks have set an extremely low

level, close to zero, for making contributions to their bad debt reserves, which goes a long way toward explaining why they have managed to show a relatively high profitability.

C) Noninterest income and expenditures. Tables 11 and 12 present the noninterest income and expenditures of the four Chinese banks and Western commercial banks.

We can see from the two tables that with the exception of the Agricultural Bank, whose noninterest income was on a par with those of foreign banks, the net noninterest incomes of all three Chinese banks exceeded those of foreign banks, notably by over 0.5 percent in the case of the Industrial and Commercial Bank of China and by 1 percent or so in the case of the Construction Bank. Chinese banks had lower noninterest incomes and expenditures than foreign banks.

Table 11. Noninterest Incomes and Expenditures of China's Four Major State Banks as a Percentage of Average Assets

Bank	Item	1986	1987	1988	1989	1990	1991
Industrial and Commercial Bank of China	1) Noninterest income/average assets	0.14	0.16	0.20	0.25	0.21	0.20
	2) Noninterest expenditures/average assets	0.76	0.84	1.01	1.02	1.00	0.95
	3) Noninterest net income	-0.62	-0.68	-0.81	-0.77	-0.79	-0.75
Agricultural Bank	1) Noninterest income/average assets	0.12	0.11	0.15	0.17	0.38	
	2) Noninterest expenditures/average assets	1.29	1.50	2.01	2.10	1.54	
	3) Noninterest net income	-1.17	-1.40	-1.86	-1.93	-1.16	
Bank of China	1) Noninterest income/average assets	0.84	0.84	0.74	0.65	0.66	0.62
	2) Noninterest expenditures/average assets	0.79	0.70	0.66	0.71	0.74	0.63
	3) Noninterest net income	0.05	0.14	0.08	-0.06	-0.08	-0.01
Construction Bank	1) Noninterest income/average assets	0.008	0.014	0.022	0.036	0.039	0.057
	2) Noninterest expenditures/average assets	0.075	0.142	0.254	0.291	0.328	0.382
	3) Noninterest net income	-0.067	-0.128	-0.232	-0.261	-0.289	-0.325

Table 12. NonInterest Incomes and Expenditures of Western Commercial Bank as a Percentage of Average Assets

Bank	Item	1986	1987	1988	1989	1990	1991
U.S. Commercial Banks	1) Noninterest income/average assets	1.28	1.39	1.48	1.54		
	2) Noninterest expenditures/average assets	3.17	3.26	3.20	3.34		
	3) Noninterest net income	-1.91	-1.87	-1.83	-1.80		
Royal Bank of Canada	1) Noninterest income/average assets	0.85	1.06	1.22	1.36	1.36	1.35
	2) Noninterest expenditures/average assets	2.22	2.32	2.44	2.81	2.71	2.77
	3) Noninterest net income	-1.37	-1.26	-1.22	-1.25	-1.35	-1.42
Barclays Bank of Britain	1) Noninterest income/average assets			1.88	1.83	1.70	1.98
	2) Noninterest expenditures/average assets			3.28	3.06	2.87	3.14
	3) Noninterest net income			-1.42	-1.23	-1.17	-1.16

So another major reason for the relatively high pretax ROA of the four Chinese banks was their high noninterest net incomes. To put it differently, their noninterest expenditures were low.

To sum up, the four Chinese banks had a higher pretax ROA than foreign commercial banks mainly because of: 1) minuscule withholding for the bad debt reserve fund; 2) low noninterest net expenditures; and 3) average net interest incomes.

2) Factors determining pretax ROE.

Pretax ROE is what you get when you divide pretax ROA by a bank's equity to assets ratio. In addition to the

pretax ROA, analyzed above, another factor which helps determine the pretax ROE is the equity to assets ratio.

As Table 13 indicates, with the exception of the Bank of China, the equity to assets ratios of all three of the other Chinese banks have shown an unmistakable downward trend. The main reason for this is that when the four banks were set up, the state decided on a one-time basis their respective credit funds. Subsequently the banks' assets increased rapidly, but their equity has failed to keep up. Compared with leading banks in the world, however, the Chinese banks still have a relatively high equity to assets ratio.

Table 13. Equity of Four Leading State Banks as a Percentage of Assets

Bank	1986	1987	1988	1989	1990	1991
Industrial and Commercial Bank of China	6.03	5.92	4.82	4.57	4.48	4.30
Bank of China	3.41	2.96	3.65	4.1	4.2	4.07
Construction Bank	8.59	8.85	7.80	6.90	5.88	4.90
Agricultural Bank	9.50	8.56	7.79	8.89	5.66	

Note: Equity does not include net profit for the year concerned.

Table 14. World Ranking of Four Leading Chinese State Banks Based on Core Equity as Percentage of Assets (End of FY 1991)

Bank	Core Equity/Assets	Ranking Among Top 1,000 Banks	Ranking Among Top 50 Banks
Bank of China	6.04 (1)	427	5
Industrial and Commercial Bank of China	4.30	698	26
Construction Bank	5.13(2)	522	14
Agricultural Bank	4.50	654	23

Notes: (1) and (2)—Core equity includes profits and losses for the year in question.

Assuming a constant pretax ROA, the lower the equity to assets ratio, the higher the pretax ROE; conversely, the higher the equity to assets ratio, the lower the pretax ROE. Accordingly, the equity to assets ratios of the four Chinese banks were not the cause of their relatively high pretax ROE. Their pretax ROE was relatively high primarily because of their high pretax ROA.

Generally speaking, therefore, the four Chinese banks enjoy high pretax profitability mainly thanks to minuscule withholdings for the bad debt reserve funds, low noninterest expenditures, and net interest incomes that approach the average level.

III. Understanding and Evaluating the Profitability of China's Four Leading State Banks

1) The rationale of funding bad debt reserve.

The rule of thumb is that when lending carries little risk and people feel optimistic about the future of the economy, commercial banks underfund their bad debt reserves. What then do minuscule bad debt reserves of the four Chinese banks say about credit risk?

A) The credit risk of China's four leading state banks. If we look at the lending ratios, all four Chinese banks have been lending heavily, both relative to their total assets and relative to their deposits, the latter far higher than those of other foreign commercial banks. When the lending ratios go up, credit risk increases.

Turning to the quality of loans, just about everybody knows for a fact that the credit assets of the four Chinese banks are of poor quality. It has been estimated that bad debts account for more than 20 percent of all the loans held by the four banks. In other words, over 20 percent

of the loans have gone sour and are practically uncollectible. Add those loans which are overdue (including those whose periods of repayment have been extended) and the proportion would reach 70 percent or so. This is an astounding figure for a bank. By late 1991, the Industrial and Commercial Bank of China had made loans totaling 797.12 billion yuan and the Agricultural Bank, 457.807 billion yuan. At the same time, the Bank of China had made loans and overdrafts amounting to 414.325 billion yuan and lending by the Construction Bank stood at 260.021 billion yuan, in addition to 255.1 billion yuan in government investment and commissioned loans. Assuming a bad debt rate of 20 percent, among them the four banks had over 430 billion yuan worth of uncollectible loans. Meanwhile, however, their combined equity was only 150 billion yuan (based on business statistics on banking institutions in the *China Financial Yearbook*). The four Chinese banks have far more liabilities than assets.

For comparison purposes, let us take a look at the situation in the United States and Japan.

In 1989, 3 percent of all the loans made by commercial banks in the United States were bad loans. Add the uncollectible loans written off that year and the proportion would be higher, about 4 percent. This is fairly normal in the world.

In September 1992, about 3 to 4 percent of all the loans held by Japanese banks were bad loans. Considering the fact that official data are less than complete, the percentage of bad bank loans in Japan was closer to 7 percent on average. It takes more than three years for a bank, whatever its type, to recoup losses of this magnitude. At the moment Japanese banks are inextricably mired in financial troubles caused by the declining quality of their loans and their excessively small bad debt reserves.

The situation in China is much worse than that in Japan: 1) A sharply higher proportion of the loans made by the four Chinese banks consists of bad and uncollectible loans; 2) the overwhelming majority of the Chinese banks' bad loans are credit loans, that is, unsecured loans or loans with no collateral—in Japan, in contrast, a large portion comprises mortgage loans; and 3) the four Chinese banks' bad debt reserves are pitifully low.

For these reasons, lending is high-risk business for the four leading state banks in China. And because lending is so risky, underfunding the bad debt reserve fund is a gross violation of the principles of operating a commercial bank. The fact of the matter is that their, the result of funding the bad debt reserve at extremely low levels, has been paid for by prepaying themselves with future income, effectively passing present losses onto the future.

B) The impact of credit risk of four major state banks.

1) Impact on mobility. The four banks have numerous loans which are overdue and uncollectible. As a result, a huge amount of money has been taken out of circulation. This is an important reason for the lack of bank mobility. With mobility lacking, the four banks have no choice but to try to close the shortfall by borrowing heavily from the central bank. Hence their practice of over-borrowing.

2) Impact on equity risk. The four major banks have more liabilities than assets. Consequently, equity has lost its function of offsetting future assets losses. With equity existing in name only, equity risk has become very serious.

3) Impact on the size of assets. The existence of a large amount of uncollectible loans which have gone sour but have not been written off reduces a large portion of a bank's assets to sham assets. It creates an air of sham prosperity while lowering the return on assets.

4) Impact on profitability. When loans go sour but are not written off, they drive up a bank's profitability in the short run. In the long haul, however, they cannot but depress its profitability. As noted earlier, the pretax ROA of the four Chinese banks has been showing a downward trend. A major reason behind this is the deterioration in the quality of loans.

C) Assuming the credit risk of four leading state banks. The four Chinese banks are taking a great risk in making loans. To a large extent they assume the risk on behalf of state enterprises. As of today, the banks remain fairly profitable, and there is no erosion of their equity. Who, then, assumes the risk and absorbs the losses of the banks?

The loans made by the four major state banks have two principal sources: deposits in general and loans by the central bank. Long-term deposits are what primarily enables the banks to stay in business. Once a bank goes into liquidation, it must face up to any lending losses and depositors will lose money. Also, because of inflation,

depositors are actually earning negative interest on their deposits. Thus losses are borne in part by depositors through reduced interest income. When one of the four banks borrows from the central bank, it effectively increases the latter's public debt, in other words, the basic money supply goes up. The risk of borrowing from the central bank, therefore, ultimately manifests itself as inflation, a burden borne by society as a whole.

As long as the four major banks guarantee that they can make payments to depositors and do not go into liquidation, there is only one way credit risk can be channeled, namely, inflation. Since both the government and the enterprise are net borrowers, today it is the citizens who ultimately will bear the credit risk and have to absorb the losses associated with it. Given that the four banks have more liabilities than assets, the moment they lose the prop of public deposits, the inevitable upshot will be vicious inflation and a financial crisis.

To sum up the preceding paragraphs, the high profitability of the four banks, which results from starving their bad debt reserves, has been paid for with prepaying themselves with future earnings and inflation.

2) Factors determining net interest income.

The net interest income of a bank is mainly determined by three variables: the mix of assets and liabilities, interest rate and interest rate risk, and the quality of assets.

A) Impact of the mix of assets and liabilities on net interest income. Using commercial bank criteria of safety and mobility to analyze the mix of assets and liabilities of each of the four major banks, we can see that a relatively high proportion of their high-yield assets consists of loans and that their assets score low on both safety and mobility. They are heavily dependent on loans from the central bank as a source of funds, which, in turn, enables them to lend to others. Central bank loans are relatively low-cost. The mix of assets and liabilities of the top four banks is a plus for them in the near term in that it helps boost their net interest income. In the long run, however, the lack of safety and mobility is a serious threat to profitability.

B) Impact of interest rates and interest rate risk on net interest income.

1) Interest rates on deposits and loans. In the West, interest rates paid by a commercial bank on deposits and charged by it on loans are determined by the bank on its own within a legally established range based on the prime lending rate charged by the central bank and in light of market conditions. In China, interest rates on deposits and loans are uniformly set by the People's Bank. In reality interest rates on loans are reined in by the state of state enterprises and cannot be raised. Often enterprises are actually paying negative interest on their loans. As for interest rates on deposits, they cannot be

lowered by a wide margin. For these reasons, the difference in interest rates charged by Chinese banks is much smaller than in the West. This makes it harder for Chinese banks to boost net interest income.

2) Interest rate risk. In the West, a commercial bank may adjust the coordinated interest rate of its assets and liabilities only at the end of a predetermined period of time. It cannot change the interest rates on its assets and liabilities at the same time, so interest rate risk is a serious risk for Western commercial banks. In China, interest rates are set uniformly by the People's Bank. When interest rates are adjusted, the new rates go into effect across the board with no exception regardless of when a deposit or a loan becomes due. Before 1991, interest rates were calculated in stages, so just about all interest-earning assets and interest-incurring liabilities could be regarded as having a floating interest rate, in other words, they were interest-rate-sensitive. For this reason the four major Chinese banks essentially did not assume any interest rate risk, instead transferring them onto depositors and lenders. This again helps boost their net interest incomes. When an interest rate is adjusted upward or down by the People's Bank, the four banks' risk is limited to that resulting from the difference between interest rates on deposits and interest rates on loans. This kind of risk is markedly less than interest rate risk.

C) Impact of the quality of assets on net interest income. Because of the special relationship between the four banks and enterprises, the vast majority of enterprises which have borrowed from the banks are able to pay interest. In China, numerous state enterprises are losing money, yet few have gone bankrupt and most of those which are unable to pay back their loans continue to survive. The fact that the banks continue to receive interest on bad loans eases the impact of the quality of credit assets on their net interest incomes. To put it differently, the potential adverse effect of bad loans on net bank interest income has not been fully felt.

However, as the conditions of a number of enterprises which should have declared bankruptcy continue to worsen, more and more loans will cease to generate any interest payments. The amount of unpaid interest has actually been rising steadily, depressing the net-interest-income-to assets ratio for all the major banks (except the Bank of China) year after year, a trend that is projected to quicken in the years ahead. Accordingly, the quality of assets is the biggest hidden danger to the drive by the Chinese banks to maintain a high level of net interest income.

3) About noninterest incomes and expenditures.

A) Noninterest incomes. The four Chinese banks have a very low level of noninterest income, which accounts for just a tiny portion of their operating income. This points up a lack of variety in their functions and suggests that their operating income correspondingly faces more risk.

B) Noninterest expenditures. A low level of noninterest expenditures works to the advantage of the four banks in that it helps raise their profitability. That the banks have low noninterest expenditures is primarily the result of the following: 1) low personnel costs. Like other large and mid-sized state enterprises, the four banks defer to the future the costs of paying for the pensions of their employees and hive off their unemployment costs to society at large. In addition to benefiting from China's cheap labor, therefore, the four banks have been able to cast off some of their burden. This is why their personnel expenses are far lower than those of foreign commercial banks. 2) Their operational fixed-assets expenses, such as those on buildings and equipment, are very low. This is mainly because it costs relatively little to put up a bank building, and their offices and business equipment are backward. However, the edge of Chinese banks in these two areas will gradually diminish in the years ahead. In more recent years, competition and a desire to "keep up with the Joneses" have sent bank investments in fixed assets soaring. Personnel expenses, too, will go up as the average wage level in society rises and the caliber of bank personnel improves. Keeping noninterest expenses at a low level, therefore, actually rests on shaky ground.

To sum up, we see that although the profitability of the four Chinese banks remained quite high up to 1991, their assets are characterized by limited safety and mobility. Their standard of management is low, as is their operational efficiency. If this situation remains unchanged, it will basically be impossible to keep the current level of profitability.

IV. Conclusions and Suggestions

1) **Some bank assets and equity exist on the books only.** In terms of size, the four Chinese banks must now be counted among leading banks in the world. However, it is misleading to determine a bank's size based on the assets or equity on its books. How misleading? That depends on the quality of the assets. A big chunk of the lending of the four banks consists of bad loans.

2) **Much of what has given rise to their high profitability is gradually disappearing.** The high pretax ROA and ROE put them in the upper middle bracket among the major banks in the world. Nevertheless, their rankings have been slipping in the past few years. Their high profitability can mainly be attributed to minuscule bad debt reserves and minimal noninterest expenditures. These two advantages are disappearing over time as specialized banks are transformed into commercial banks and as the banking industry is opened up to the outside world. To maintain their profitability at a high level amid increasingly ferocious competition, the four banks must revise their operating goals, reform their management methods, and adjust their scope of operations.

3) What to do about bad loans

The existence of a large number of bad loans is a major hurdle facing the four banks as they work to transform

themselves into commercial banks. These loans are the product of the traditional system of economic planning. They must now be dealt with individually, depending on what category they fall into. The burden should be borne jointly by the treasury, banks, and enterprises. The idea is to absorb the losses gradually.

A) Classify the bad loans and handle them accordingly. Based on the reality in the four banks, their bad loans can be divided into three types: 1) overdue loans that are still collectible; 2) loans taken out by enterprises years ago which have now become uncollectible, but nevertheless have a material base; and 3) bad loans with no material base.

Regarding the first type, they can be collected in a timely fashion provided the four banks tighten supervision and control. The second type of bad loans can be converted into bank investment in the enterprises concerned, which was what those funds were at the beginning. But we should be careful to separate the involvement of the banking and securities industries. The third type of bad loans exists on the books only. They should be reported as losses and written off as appropriate.

B) The treasury and the banks should share the burden of writing off bad loans that exist on the books only.

1) Chinese banks have been submitting to the treasury 68 percent of the money in the bad debt reserve fund since 1988. The treasury should return these funds to the banks, which, along with the portion retained by the banks themselves, should then be used to write off bad loans and return the funds hitherto tied up to the original uses.

2) Raise to as high a level as the treasury can tolerate the bad debt reserve withholding rate of the four banks for a set period of time. The funds can then be used to write off bad loans. Rules should be adopted to require banks to set aside a portion of their after-tax profits to finance loan write-offs.

A plan may be drawn up under which the share of bad debts is to be reduced to a certain percentage through write-offs within a few years.

C) As for the loans taken out by enterprises which have become bankrupt or are about to do so, the bank in question should apply to the courts for creditor's rights and participate in the liquidation process. Everything should be done to minimize bank losses.

D) Preventing new bad loans. Apart from economic and policy reasons, bad loans are also caused by numerous man-made circumstances that do not make sense. To prevent the emergence of new bad loans, the four banks must draw a clear line between their policy-based operations and their commercial operations, and turn over the former to policy-based banks. That way, rights and responsibilities are clearly pinned down; whoever authorizes a loan would be held accountable for it. Next, we should develop some feasible and practical performance

standards to restrain the business conduct of banks at all levels. As long as management by the volume of lending remains in use, for instance, we should examine a bank's on-time loan repayment, bad debt, and overdue loan rates (including loans whose repayment periods have been extended) and seriously link them to the volume of its lending as well as the granting of rewards and meting out of penalties to its employees. In short, zero in on bank management and make the quality of commercial banks a priority. That constitutes an effective way to cut down on bad commercial loans and is something we can do even before state enterprises retool themselves.

Foreign Trade & Investment

Judgment Reached in Copyright Infringement Case

OW2303054195 Beijing XINHUA Domestic Service in Chinese 2121 GMT 18 Mar 95

[By reporter Yang Qing (2799 7230)]

[FBIS Translated Text] Beijing, 19 Mar (XINHUA)—After adjudicating for over three years, the Beijing Municipal Higher People's Court recently reached a final judgment in a lawsuit on the copyright for the design of an ornament inlaid with gold, pearls, and jewelry—"The Emperor's Throne." The case caused a sensation across China earlier. The verdict announced that the copyright for "The Emperor's Throne" belongs to the Beijing Municipal Jewelry Plant [BMJP]. China's first lawsuit involving the infringement of a copyright for an artistic handiwork has reached its final judgment.

It has been learned that in early 1992, the BMJP began to sell a large art treasure, "The Emperor's Throne." Meanwhile, Zhuhai Jadeite, Precious Stones, and Jewelry Company Limited [ZJPSJC] also announced in Beijing that it would produce a large artistic ornament—"The Emperor's Throne." Zeng Yibing, chief designer of ZJPSJC's "The Emperor's Throne," had previously worked as a BMJP manager. The design he gave to ZJPSJC was similar to the BMJP product. Therefore, in October 1992, BMJP filed a lawsuit on the design's copyright against Zeng Yibing and the ZJPSJC. The BMJP-ZJPSJC dispute over the copyright of "The Emperor's Throne" attracted attention in various social circles.

In September 1993, the Beijing Municipal Intermediate People's Court reached the following judgment: When Zeng Yibing made the design of "The Emperor's Throne" in his capacity as a BMJP manager, his work and its copyright belonged to the BMJP because he was fulfilling part of his duties. Consequently, "The Emperor's Throne" produced by Zeng Yibing and the ZJPSJC infringed on the copyright for the design of the BMJP's "The Emperor's Throne;" they should cease the infringement and apologize to the BMJP. Furthermore, Zeng Yibing shall pay renminbi 260,000 yuan to the BMJP to compensate for its economic losses, and the ZJPSJC shall shoulder joint liability. Zeng Yibing and

the ZJPSJC were dissatisfied with the first judgment and lodged an appeal in October 1993.

On 13 March 1995, the Beijing Municipal Higher People's Court reached a final judgment, rejecting the appeal and affirming the original judgment. The BMJP-ZJPSJC dispute over the copyright of "The Emperor's Throne" ended and the BMJP won the case.

Laser, Compact Disc Firm Improves IPR Protection

HK2203150995 Beijing ZHONGGUO XINWEN SHE
in Chinese 0547 GMT 22 Mar 95

[By correspondent Geng Jun (5105 6511)]

[FBIS Translated Text] Beijing, 22 Mar (ZHONGGUO XINWEN SHE)—The Shenzhen Shenfei Laser and Optical System Company Ltd. [SLOS], which has been suspended from operations by the PRC Press and Publications Administration [PPA] for copyright infringements, is undergoing a complete and thorough restructuring and rectification.

SLOS chief executive officer Ye Huaming gave this correspondent an exclusive interview while in Beijing on a business tour.

Ye Huaming first stated that the PPA's decision to punish the SLOS indicated the seriousness with which the state was protecting intellectual property rights [IPR], and was entirely correct and timely. The SLOS will observe the decision resolutely, learn from the lesson, and properly pursue the restructuring and rectification.

The PPA's administrative decree to punish the SLOS was issued on 24 February this year and was based on the fact that the company copied for foreign businesses the movie "Jurassic Park" on its laser and compact discs without studying and verifying, to the best of its knowledge, the legality of the copyright and authorization it received.

Ye Huaming explained that, on receiving the PPA's decree, the company called a meeting of its core managerial executives, which formed a leading restructuring and rectification group headed by Zhang Dongren, assistant general manager of the Xianke Group Enterprise. At 0700 on 1 March, all production lines were suspended from operation in accordance with the decree. Led directly by the restructuring and rectification group, the SLOS drafted a detailed study and rectification action plan, which arranged for SLOS's 350 workers to study the "Copyright Law," "Questions and Answers on Knowledge of Copyright," and "Ordinances on the Administration of Audio-Visual Products," all of which concerned IPR. Discussions and quizzes were organized for 1,450 participants. Each worker was required to "learn, understand, and observe the law." Records on processing and production dating back to the beginning of the company were screened and checked.

Ye Huaming told this correspondent that the SLOS has formulated strict restructuring and rectifying measures, chief among which are: Replacing the original operators with new ones; shuffling and strengthening company leadership; operators and operation supervisors having to pass an IPR knowledge examination before assuming work duties; and processing and production having to conform strictly to IPR laws, rules, and regulations promulgated by the state. Also, when placing an order with the company, a client must provide a copy of the distribution permit, the operation license, and the certificate authorizing the operation and publication of the audio-visual product in question, a letter giving power of attorney signed and stamped by the legal representative of the client, and a letter of authorization from the copyright holder. After processing, a sample of the product and all relevant documents will be submitted to the provincial or city press and publications administration for the record. For overseas orders, the letter of authorization and the power of attorney and a master tape must be vetted and verified by the provincial press and publications administration before production begins. Before shipment, the export application form must be submitted to the city press and publications administration for vetting and its signature of approval, and will be attached to the shipment to be cleared by the customs. The vetting and approval procedures for accepting orders will be made more rigorous and acceptance of orders will be directly overseen by the general manager or the supervising assistant general manager. Copying and processing of contracts will be vetted more vigorously. Documents signed between the company's order-accepting supervisors and clients on each and every copying and processing order, and copyrights arising therefrom, will be countersigned by the general manager or a supervising assistant general manager before production begins. The company will hire an IPR lawyer as its legal consultant, who will speak on copyrights and improve our ability to distinguish genuine from fake copyrights.

Since the suspension, the SLOS has been losing 600,000 yuan daily. Regarding this, Ye Huaming said: Through rectification, the whole staff of the company recognized that in the face of fierce competition in laser products, we have not learned enough about IPR laws and our awareness of copyright is low. Some operators did not understand sufficiently well copyright outside the borders and could not tell which was which. There were loopholes in the company's internal management which led to mistakes in work and created a bad influence. We should learn and remember well the lesson. At the same time, the SLOS was a victim of copyright infringements by some other factories. The PPA's decision and actions demonstrated the state's protection of outside-the-border IPR and of the SLOS's long-term interests.

The SLOS is the only high-tech enterprise in China with a full-range capability in laser and compact disc production. It was the factory that made the first CD-ROM in China.

French Textile Companies Enter Shanghai Market

OW2303025795 Beijing XINHUA in English 0236
GMT 23 Mar 95

[FBIS Transcribed Text] Shanghai, March 23 (XINHUA)—Thirteen French textile manufacturers and two trading companies are attending a six-day international garment fair that opened here today.

Some big names in the French textile industry, such as Christory, Louis De Rochegude, Sart Lievin, Jules De Surmont et Fils (and Brothers) make up the largest single foreign group at the fair, which opened Tuesday and is scheduled for conclusion on March 27.

Present also are business people from Germany, Italy, Japan, the Republic of Korea, Finland, Hong Kong, and 12 provinces and municipalities from the Chinese mainland.

According to Christophe Doucerain, commercial counsellor at the French Consulate in Shanghai, the French textile manufacturers are showing strong interest in the potential Shanghai market, which is looking for foreign cooperation to improve its textiles.

French business people agree that they have the advanced technology, experience, and the latest information, while China has a huge market. Cooperation between the two countries is expected to have bright future.

Hong Kong Firm To Open 20 More Retail Outlets

OW2303034295 Beijing XINHUA in English 0242
GMT 23 Mar 95

[FBIS Transcribed Excerpt] Hong Kong, March 23 (XINHUA)—Dailywin Group, one of the largest designer and manufacturer of watches and watch components in Hong Kong, has been successfully listed on the London Stock Exchange this month. [passage omitted]

Eddie Leung, Chairman of Dailywin Group, said that apart from enhancement of the Group's corporate image and fund raising, another remarkable achievement for the Group in this listing was to attract Timex, the largest watch manufacturer in the United States, to become one of the major shareholder of his group. [passage omitted]

On tapping the China market, Leung said that Dailywin had developed a very strong base, good connections and accumulated much invaluable experience in the past few years.

He said that his group plans to spend about 5 million HK dollars (641,000 U.S. dollars) to establish an addition of 20 retail outlets, five specialty shops and advertising promotion within this year in China. The group now has 47 retail outlets and three specialty shops operating in China.

Three Gorges Project Offers Investment Opportunities

HK2303061895 Beijing ZHONGGUO XINWEN SHE
in English 1412 GMT 22 Mar 95

[FBIS Transcribed Text] Hong Kong, March 22 (CNS)—The Three Gorges Project involves migration of a large number of local residents, and 1,559 local factories need to be moved. The technological upgrading and reconstruction of these factories in the future will offer a better opportunity for overseas businessmen including Hong Kong investors.

Director of Migration Development Bureau of the Three Gorges Project Construction Committee under the State Council Tang Zhangjing said here today that the Three Gorges Reservoir Area covered 21 counties, cities, prefectures as well as parts of Chongqing and Yichang cities which would be submerged by the future Three Gorges Reservoir with a total area of 58,000 square kilometers involving a population of 17.8 million. With construction of the Three Gorges Project, industrial lay-out there would show a great change.

He said among these factories to be moved, more than 80 percent were small and medium-sized enterprises involving 11 trades based on light and textile industry, food as well as building materials industry. With input of a lot of funds by the state, the resettlement will be a rarely good chance for these factories. The state hoped these factories could upgrade their technology and rationalize their products by this opportunity of resettlement.

In August of last year, the State Council of China decided to list 17 counties in the Three Gorges Reservoir Area as the Yangtze River economic open zones, to list Yichang, Wanxian and Fuling cities as open cities along the Yangtze River, these cities will enjoy the same preferential policies and treatment as coastal open cities.

The Mainland welcomed overseas businessmen including Hong Kong investors to participate in the resettlement and reconstitution of above-mentioned factories. Four cooperative ways could be provided: the joint ventures and shareholding companies; leasing or contracting these factories; partly acquisition; offering technology or transferring technology.

Hangzhou Becomes 'Popular' Foreign Investment Site

OW2303100395 Beijing XINHUA in English 0934
GMT 23 Mar 95

[FBIS Transcribed Text] Hangzhou, March 23 (XINHUA)—Zhejiang Province's capital, where foreign investment was scarce only five years ago, has now become a popular site for many foreign consortia and well-known multinational companies.

The promising developments are attributed to Hangzhou's efforts, in this "paradise on earth", where they

adopted a strategy of listing major projects and State-owned large and medium-sized enterprises as places for foreign investment.

In 1994 alone, the city approved 624 foreign-funded businesses, and made use of 411 million U.S. dollars, up 20 percent from the previous year, according to information from the city's foreign trade and economic cooperation committee.

At present, more than 60 percent of the city's large and medium-sized State-owned enterprises have introduced foreign investment for technological upgrading, which in turn has transformed the enterprises.

The influx of foreign investment has also accelerated the pace of building basic facilities in the city, say the officials.

Official Views Provincial Foreign Trade Work

SK2303025295 Harbin Heilongjiang People's Radio Network in Mandarin 1000 GMT 22 Mar 95

[FBIS Translated Text] On 22 March, at the provincial work conference on foreign economic relations and trade, Vice Governor Wang Zongzhang stressed the necessity of enhancing the dynamics in absorbing foreign investment, developing new products, searching for new markets, and making new breakthroughs in provincial exports and foreign exchange revenues this year.

After reviewing and analyzing the province's achievements and current situation in utilizing foreign capital, Wang Zongzhang held: Because the province began absorbing and utilizing foreign capital in a late manner, the existing projects using foreign capital are small in scale, low in level, and poor in efficiency. At present, the province as a whole is conducting a re-exploitation and deep processing of natural resources, is conducting a renovation of large and medium enterprises, and is striving to open up the second battlefield of the economy in line with the new idea on economic development set forth by the provincial party committee. All these efforts urgently require us to bring in a large amount of funds as well as advanced technology, equipment, and managerial experience from abroad. Therefore, absorbing foreign investment has become the focal point of this year's endeavor in opening up to the outside world and has become an important factor in gaining more momentum for the province's economic development. All localities should increase the dynamics of their work to give rise to a good atmosphere.

Wang Zongzhang said: It is a very good move that Jixi, Mudanjiang, and Daqing have designated this year as the year of absorbing foreign investment. Harbin has also been very vivid in this regard. The forms of absorbing foreign investment may be varied. Holding investment-absorbing fairs overseas is good form. The province plans to again hold a trade fair in Canada this year to absorb foreign investment.

Wang Zongzhang pointed out: The province's investment environment is not relaxed enough. Major problems lie in the intangible environment. We should further perfect the preferential policies concerning foreign investment, conscientiously grasp the implementation of these policies, further rationalize the systems on management of imported and utilized foreign funds, and improve the quality of service to foreign traders. This year, the province will formulate and carry out the regulations on unified and standardized examination and approval of foreign-funded projects in order to actually render one-stop service to foreign traders.

Wang Zongzhang stated: As demanded by the provincial party committee and provincial government, the province's total import and export volume should reach \$7 billion by the end of this century; this year the figure is planned at \$3.2 billion. This task is extremely arduous. Of the commodities currently exported by the province, about 55 percent are of primary products. On no account should we stay with the original export commodities. We should actively increase exports of new products, machinery and electronics products in particular. We should strive to search for new markets, particularly new markets in the European community, North America, South America, and the Middle East. We should expand the business scale of export trade. We should go all out to encourage trade, science and technological, and banking departments to organize comprehensive corporations and enterprise groups to cultivate new economic growth points of export and foreign exchange revenue in combination with the building of the second battlefield of the economy.

Henan 'Working Hard' To Improve Investment Environment

OW2303101695 Beijing XINHUA in English 0940 GMT 23 Mar 95

[FBIS Transcribed Text] Zhengzhou, March 23 (XINHUA)—Foreign-funded businesses in central China's Henan Province turned over 470 million yuan in taxes to local government last year.

That marks a sharp contrast with the 10 million yuan in taxes that foreign-funded businesses contributed to the local government in 1991, according to local officials.

By the end of last year, the province had approved 3,787 foreign-funded businesses, 1,067 of which got approval only last year. Many of these foreign-funded businesses have now begun operation.

Over the past few years, the province has been working hard to improve its investment environment and has made some progress in this respect.

While providing foreign-funded businesses with better service, tax departments at various levels have been strict in implementing preferential tax policies for foreign-funded enterprises, and have strengthened administration and supervision in order to prevent tax evasion.

Course To Train Company Managers in Overseas Labor

HK2303092895 Beijing CHINA DAILY in English 23 Mar 95 p 5

[By Sun Hong: "Training Begins on Overseas Labour"]

[FBIS Transcribed Text] The first training programme for managers of Chinese companies engaged in contracted labour and engineering projects overseas started yesterday in Beijing.

The programme aims to better protect Chinese labourers' legal rights overseas and to improve labour administration.

More than 100 managers of companies in Beijing, Tianjin, and Hebei Province have signed up for the programme.

They will receive short training courses delivered by experts and officials of the Labour Ministry on China's Labour Law, labour-related laws, and international labour regulations, and how to protect Chinese workers' legal rights.

"This is the first of a series of training programmes," said Wu Xilin, a deputy section chief of the foreign economic cooperation department of the Ministry of Foreign Trade and Economic Cooperation (Moftec).

He said the ministry plans to operate three to four such programmes by the end of this year to train managers across the country.

China has 462 companies engaged in contracted labour and engineering projects overseas. About 210,000 Chinese are now working abroad.

The second programme will begin on March 28 in Shandong Province, with trainees coming from companies in eastern China dealing with overseas labour and engineering projects.

Wu said some Chinese companies had signed labour contracts which lack the necessary labourer protection clauses or bow to foreign employers' illegal requirements for Chinese labourers. The companies did so either out of lack of legal knowledge or for profit. These have harmed Chinese labourers' interests and Chinese company's reputations said Wu.

Moftec is also accelerating steps to promote the labourer training system which started last October.

The system has been applied to labourers sent to Japan, the Republic of Korea, and Singapore.

"Since April 1 this year, Chinese labourers planning to work in republics of the former Soviet Union, European countries, and Mongolia also will have to receive the required training courses. This exam is a must for labourers who will work in the abovementioned

nations," said Diao Chunhe, a section chief of the foreign economic cooperation department of Moftec.

The training system will also apply to labourers dispatched to Hong Kong and Macao by the end of June and to all contracted Chinese labourers overseas by the end of this year, according to Moftec schedules.

China has established 80 training centres which deliver courses on foreign laws, customs, language, and sector standards.

At present, Moftec is working on unified teaching materials and detailed rules of the "Temporary Regulations on Training of Contracted Chinese Labourers Overseas," which was issued last May.

Electronic Industry Shows Steady Economic Growth

HK2303093495 Beijing CHINA DAILY in English 23 Mar 95 p 5

[By Pei Jianfeng: "Electronic Industry Charges Up"]

[FBIS Transcribed Text] China's electronics enterprises are rather small compared with foreign giants. But they are gathering strength to compete in both domestic and overseas markets.

The Ministry of Electronics Industry yesterday published the nation's largest 100 electronics enterprises in terms of manufacturing revenues made last year.

The total revenue of the 100 companies reached 94.4 billion yuan (\$11.24 billion) last year accounting for 69 percent of the industry's total.

These enterprises are the backbone of China's electronics industry. Ministry officials hope that world-level giants would develop from these companies.

Three companies on the list each have an annual revenue exceeding 5 billion yuan (\$595 million); another 26 companies each have a revenue exceeding one billion yuan (\$119 million).

The Shanghai Audio and Video Co Ltd tops the list as the country's largest electronics company with revenue hitting 5.35 billion yuan (\$637 million) in 1994.

The Shanghai Bell Telephone Equipment Manufacturing Co, a joint venture set up by French Telecommunications giant Alcatel and Chinese partners has grown into the second largest company in the electronics industry.

It produced 4.4 million lines of computer-controlled switching systems last year, for 40 percent of the domestic market. Its total revenue last year was 5.12 billion yuan (\$605 million).

Among the 100 enterprises, 49 are State-owned, 22 are shareholding companies and 17 are Sino-foreign joint ventures.

Wholly-owned ventures launched by foreign companies are not included on the list.

China's electronics industry faces new challenges and opportunities as foreign companies swarm into the country.

The ministry has worked out a strategy to nurture its own electronics heavyweights.

Under the programme, four or five domestic companies will each raise their revenues to 10 to 20 billion yuan (\$1.19 to 2.38 billion) by 2000.

The ministry hopes that several companies would edge into the world's top 500 enterprises early the next century.

Integrated Circuit Market Forecast for 1995 Cited

*OW2303095895 Beijing XINHUA in English 0921
GMT 23 Mar 95*

[FBIS Transcribed Text] Beijing, March 23 (XINHUA)—China will need 700 million blocks of consumer circuits and 600 million other circuits this year, according to a recent market forecast.

According to the forecast, China plans to produce 15 million color TV sets—four million for export and 11 million for domestic market.

Most of the remote control circuits in the country are made by Mitsubishi, Toshiba and Philips, and over 90 percent of color TV sets are remote controlled. It is predicted that China will need 70 million blocks of remote control circuits for color TV sets in 1995.

China will also need 30 million blocks of main circuits, 75 million blocks of peripheral circuits and 15 million blocks of color TV set power supply circuits.

In 1995, China will produce 14.5 million black and white TV sets—3.5 million for export and 11 million for domestic market, and will need 44 million blocks of related circuits.

The output of audio systems will be 38 million—14 million for domestic market. And there are more than 160 million blocks of audio circuits on China's market, less than one-fifth of which are China-made. The majority of high-grade circuits are imported and there is a fierce competition for low-grade circuits production.

Over 100 million electronic clocks and watches will be assembled in 1995, mainly in east China's Fujian and south China's Guangdong provinces. The circuits are mainly imported from Japan and Germany. The above two provinces will also assemble over 50 million electronic toys, with circuits from Hong Kong and Taiwan.

Meanwhile, China will need program-controlled exchanges with a total capacity of 12 million lines. Most of the exchanges now in use in China are made by Shanghai-based Bell, Beijing-based BISC, Tianjin-based

Ridian, Shunde-based Beidian, Qingdao-AT&T, Chengdu-AT&T and HJ04 [as received]. It is expected that China will need 50 million blocks of circuits used in telephone exchanges.

This year China will produce 30 million telephone sets, 60 percent of which will be exported. 100 million blocks of circuits will be needed for telephones.

Agriculture

Henan To Use Asian Development Bank Loans

*OW2303102795 Beijing XINHUA in English 0952
GMT 23 Mar 95*

[FBIS Transcribed Text] Zhengzhou, March 23 (XINHUA)—Central China's Henan Province, a leading grain producer, will use 100 million U.S. dollars in loans from the Asian Development Bank for agricultural development.

According to local officials, the money will be used for comprehensive agricultural development in the province's western poverty-stricken mountainous areas.

The program has gotten the approval of the State Planning Commission and has been listed on Asian Development Bank's technical aid and development plan.

The officials say that the province will invest about 202 million U.S. dollars (including auxiliary funds from the province) for intense development of resources that abound there.

Major projects will include growing 60,000 hectares of forests and animal husbandry in mountainous areas, building a number of new businesses for processing farm and side-line products, and construction of a pumping station at Yima on the Yellow River which will help solve the drinking water problem for more than 200,000 people and ensure water supplies for industrial production and irrigation.

The entire development program will involve western Henan's 33 counties, covering an area of 8.129 million hectares where 70 percent of the province's poverty-stricken people live. It will play a positive role in improving work and living conditions in the western mountainous area of Henan, according to the officials.

Preparatory work, and appraisal by the Asian Development Bank will be completed by the end of this year. Implementation of the program will be formally begun early next year, with the period of construction to be set at four to five years.

The Henan Provincial Government has paid much attention to the use of loans from the Asian Development Bank and has set up a special office to be responsible for the work. The office will ask for bids to select the best companies for the projects and to improve efficiency of investment.

Demand, Supply Figures For Maize in 1995 Cited
OW2203193095 Beijing XINHUA in English 0717
GMT 22 Mar 95

[FBIS Transcribed Text] Beijing, March 22 (XINHUA)—The production and demand of maize, one of China's three major grains besides rice and wheat, will be basically balanced in 1995, according to an official forecast.

It is estimated that China's maize growing area will be 20.35 million ha [hectares] this year, showing a dropping trend, and the total output will top 100.12 million tons, or 4,920 kg per ha. The average price will climb up slightly to 990 yuan per ton.

On the other hand, the country's consumption of maize will reach 99.5 million tons this year.

Chinese people's increasing demand for meat, eggs and milk has promoted the development of fodder-processing industry. Meanwhile, the rapid expansion of beverage and food processing industries has also boosted the demand for maize.

***Land Reform Innovations' Examined**

95CE0289A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 1, 20 Jan 95 pp 69-80

[Article by Luo Yousheng (1728 4767 1342) and Zhang Hongyu (1728 4767 1342), Policy System Reform Regulation Department, Ministry of Agriculture: "Farmland System Innovations in the Wake of the Family Contract Responsibility System"]

[FBIS Translated Text] **I. Chinese Farmland Systems: A Historical Summary**

Compulsory system changes have characterized farmland system planning.

Prior to 1979, China's farmland system underwent two compulsory changes. Judging from the desires of the government, which has been the dominant entity in providing systems, the initial intent of both these systems was to provide benefits that the previous system could not provide. The result of the first system change was transfer of land ownership from the landlords to the peasants, the land being privately held and privately farmed. The result of the second system change was transformation of peasant ownership of the land into collective ownership, the land being publicly owned and publicly farmed. Looked at in terms of the method by which they were provided and the initial intent of providing the two systems in the two compulsory changes, the aim of both changes was maximization of political support and social output, with no substantive differences between them. However, in terms of the different property rights structure that the systems themselves produced, very different results ensued.

We feel that, from the very beginning, people's communes exhibited inevitable institutional defects. First of all, the external variables affecting regulated supply and the information that decisionmakers had about the systems provided were distorted. Second, system costs were underestimated, and both the accumulated knowledge that society provided and the public attitude toward the system were overestimated. Furthermore, decisionmakers had too much confidence in their own abilities and overly high expectations about net benefits. These system defects began to show up from the very first day that the people's commune system was established. The people's communes were a compulsory system that were ahead of their time. The low efficiency of the system itself and the damage it did to peasant interests were inevitable repercussions stemming from the inherent nature of the system. Therefore the demand for reform of the people's commune system was constant and intense. Actually, even during the height of the people's commune system, spontaneous peasant demand for changes in the system never ceased. Five times before 1979, changes were made in the way in which the land system "contracted output to individual households." (Footnote: The five changes in "contracted output to individual households" occurred at Yongxi and Ruian in Zhejiang, at Jiangjin in Sichuan, at Yuci in Shanxi, and at Fengyang in Anhui, all in 1956; at Xinxiang in Henan in 1959; in Sichuan, Anhui, and Guangxi in 1960; in Yunnan and Guizhou in 1964; and in Fujian, Jiangxi, and Guangdong in 1970). Actually the rural reform that occurred in China after 1979 buried incipient system innovations.

II. Family Contract Responsibility System: Contributions and Shortcomings

Initially, the decisionmakers did not acknowledge the family contract responsibility system, and it was even considered a reaction against the socialist system at first. The system's methods suggest as well that, unlike the past system changes that the decisionmakers imposed forcibly from the top down, this system change exhibited marked spontaneous development and demand from the bottom up. However, changes in the system could not occur without a change in the desires of the decisionmakers, i.e., the government. A change in the attitude of the government is extraordinarily important to allowing system innovations or scrapping systems. When the decisionmakers mandated operating costs in maintaining a compulsory system, particularly the performance costs of the "duties" that all parties concerned in the economy provided in operation of the system, exceed the sum of the private returns obtained from the system by individual economic participants, the result is no development of productivity and no economic growth. This constitutes the real meaning of a system innovation campaign of a planned economy country carrying out "reform." (Footnote) (See Zhang Jun [1728 6511], "Property Rights and System Change Theory in a Centrally Planned Economy," JINGJI YANJIU [ECONOMIC RESEARCH], 1993, Issue 5) Therefore, only by

appreciating the role of decisionmakers as a guiding force in the direction, speed, methods, and strategy of providing a system can one understand the principles for orientation of market reform in China during the past more than a decade. In this sense, Chinese farmland system innovation is a classic in providing planning methods for changing from a supply-guided system to a demand-led system.

As a system innovation, the family contract responsibility system inherently provides a maximum return from farming to agricultural families and is suited to the nature of agriculture. In the case of more direct agriculture, family farming can effectively overcome the dependence of agriculture on external factors, increase peasant efforts, and reduce work supervision costs to zero. Consequently, the work motivation of a worker under a family responsibility system is highest not just because he obtains all the marginal remuneration rate for his efforts, but because he saves supervision costs." (Footnote) (Lin Yifu [2651 3015 1135], *System, Technology, and the Development of Chinese Agriculture*, Joint Publishing Co., Shanghai, April 1992, first edition, page 6) Therefore, analysis of each of the variables in the system shows mostly a positive correlation cost performance. System design costs are demand-led costs from the system participants, and a progressive regional advance strategy is employed in spreading the system, so actually, under extreme hardship conditions, the slightest effort can produce returns that are far greater than costs. The present accumulation of information suggests that traditional agricultural family farming methods, as well as practice with "contracting to individual households," have many times provided peasants ample understanding of family farming, and manifests the features of a rational "economic man." As regards the attitude of the people, an overwhelming majority of participants in the system wholeheartedly support it. The only uncertainties are expected net returns and the desires of upper level decisionmakers, and these are very quickly revised in light of how well the system performs.

The contribution to the growth of agriculture in China of new farmland system innovations has been tremendous. However, the family contract responsibility system as a system innovation cannot solve, once and for all, all the problems of agricultural growth. Since China's farmland must perform not only an economic function, but even more must provide social security for those who work the land, a land system that serves to change collective ownership and collective farming into collectively owned family farming must not only equitably match up the use and distribution of returns from good and bad, distant and far farmland, but under most circumstances, because of increases and decreases in population within a community and changes in other goals, as well as the way in which agricultural surpluses are allocated, and the degree to which product markets and key element markets are open, pressures also exist regarding the plots that peasants contract and readjustments of the amount they

farm. Thus, the system itself may unconsciously manifest the following shortcomings: First, long-range peasant expectations about contracting plots for long periods are not fulfilled. The farmland is owned collectively and farmed by families, but this "collective" may be regarded in a static sense as containing all members of the community, or in a dynamic sense as also containing as yet unborn members and members added through marriage. Worries about anticipated net returns do not permit formation of an effective investment and accumulation mechanism. Second, because of the limitations of income, expectations, and risks, a turnover and rational allocation of land resources on a larger scale is not possible. In 1990, fewer than 1 percent of all peasant families transferred contracts or ceded land; only 0.44 percent of the cultivated land area in the country turned over. Third, owing to the absence of property rights, the community's capricious reassignment of land as well as restrictions against ceding, inheriting, or freely farming land corrode interest in land system innovation.

The system defects of the family contract responsibility system stem largely from the corrosive effect of external factors on system innovation, but the effect is expressed through the family responsibility system. Simultaneous with the steady growth in animal husbandry, aquatic products, and nonagricultural pursuits between 1984 and 1990, output of grain and cotton stagnated. Following the all-time high grain harvest of 1984, in particular, even though the government abolished the monopoly procurement and assigned procurement systems for principal agricultural products, notably grain, that year began a four consecutive year standstill in grain output. (Footnote) (It should be noted that after abolition of the monopoly procurement and assigned procurement systems, a fixed contract procurement system was instituted for principal farm products such as grain. This system ran in parallel with the market price system, producing a "two track" price system. The contract price of grain remained too low. This produced a marked contrast with the rapid rise in prices of cash crops such as fruits and melons, the prices of which were set by the market, even though they, like grain, were products of the land.) Naturally, the system defects that the family contract system revealed were not without effect. This was the reason governments at all levels, and even communities, looked into the possibility of new system changes. The situation even went so far that a "new collectivization call appeared under the banner of expansion of the scale of farming in order to gain the economies of scale." (Footnote) (Lin Yifu, op. cit., p 82).

Most of the changes in the land system that have taken place since the mid-1980s stemmed from the following two considerations: First, following elimination of the people's commune system, administrative links between the community and peasant households changed greatly, and the economic umbilical cord was extremely fragile. The community's administrative mobilization capability was greatly weakened, and completion of tasks assigned by higher authority or community endeavors for the

public benefit and cadre compensation matters all depended more on equal contract relationships and peasant interaction. Compulsory methods lost their basis. Second, deals came to be made in markets, thus bringing out into the open clashes of interest in exchange between peasant households and the government that weakened government ability to regulate and control agriculture, etc. Therefore, search for a system that did not hurt the foundation of the family contract responsibility system and that could both fulfill the desires of the decisionmakers and produce the anticipated net benefit became the focus of system innovation, at least for subsequent government guidance system changes, thereby profoundly demonstrating the root motivation for coming up with new systems. Actually, as a classic example of a demand-led system, the advent of the family contract responsibility system did not mark the end of China's farmland system innovation. The high speed growth and uneven regional development of China's economy required both adherence to an effective basic system and the constant creation of new systems based on relative development strengths and a changed environment while maintaining the stability and comparative advantages of the basic system.

III. System Innovation: The Three Types Selected

The basic motivation for the fairly intense government and community attention to farmland system innovation in the wake of the family contract responsibility system was dissatisfaction with the performance of the former system, and the continued existence in basic agricultural policy of a system of forcible takeover of agricultural surpluses. Both government fixed procurement and contract procurement had compulsory overtones. Governments and communities faced decentralized land equalization system farming in which peasants either reduced inputs into the land because they were unable to get greater returns from it, or the government's cost of obtaining this surplus "legally" was too high. This set off government and community expectations and momentum for system readjustments. Therefore, in this sense, our so-called system innovation was actually a system innovation based on the family contract responsibility system. System choices and methods of making changes were decided mostly in terms of the variables in each system and peasant tolerance.

Regional differences in China's economy and differences in resources, manpower, capital, and technology in farming the land showed up in marked regional differences in farmland system innovation and the systems adopted. An example was the "two kinds of fields system" [i.e., dividing farmland into fields for growing grain and fields for leasing], which, though it occurs throughout the country, is mostly concentrated in central China. "Farming on an appropriate scale" shows fairly intense momentum in the suburbs of large cities and in developed coastal areas. The auctioning of land-use rights for the "four kinds of wasteland" is practiced mostly in western mountain regions and not very well-developed areas. Therefore, this article cites the three

relatively classic types of system innovation that are most widespread and have the greatest effect, namely the "two kinds of fields system," "farming on an appropriate scale," and the auctioning of use rights for the "four kinds of wasteland." It also analyzes the origins, methods, and performance of system innovations.

1. *The two kinds of fields system*

Since China's farmland must function both to develop the economy and provide members of the community a living as well, the family contract responsibility system has always faced pressures for new land readjustments stemming from equalization of land ownership and from increases or decreases in the population. Moreover, the long-standing exchange at unequal value between cities and the countryside and between industrial and agricultural products has meant a distorted apportionment of returns from the land, particularly farm surpluses, between both government and communities and peasant households. How to control surplus farm products "economically," as well as adjust conflicts of community interests, lower trading costs, i.e., lower costs in dealings between communities and the peasants, and lower the costs of dialogue between the government and peasants, has always been an important problem. The "two kinds of fields system" shows marked advantages for lowering costs. This land system innovation, which is conducted while holding on to the basic family contract responsibility system, began in 1986. It has now become the system most widely practiced today. Results of a nationwide Ministry of Agriculture random sampling show that in 1992, 1.7 million villages, or 32.3 percent of all village communities, practiced the "two kinds of fields system." This was 508,000 more than in 1990, a 42.6 percent increase. The "two kinds of fields system" applied to 590 million mu of cultivated land area, up 40 million mu from 1992 in a 7.3 percent increase. In terms of regional distribution, the "two kinds of fields system" occurs mostly in eastern and central China, and its growth is most marked in central China. The number of villages practicing the "two kinds of fields system" in central China increased 9.4 percent between 1990 and 1992, and the amount of cultivated land involved increased 70.8 percent. The central region is also the principal grain and cotton growing area in which growth has been most rapid. (Footnote) (Ministry of Agriculture Special Topics Team, "1992 Survey of China's Rural Land Contracting Farming System and Cooperative Organization Operation," NONGCUN JINGJI WENGAO [RURAL ECONOMY MANUSCRIPTS], No 9, 1993).

The per capita distribution of land in the "two kinds of fields system" was changed to the equal division of grain ration fields by population in accordance with the division of responsibility fields. The economic development function and the social support function of land under the family contract responsibility system was separated according to the system for assigning responsibility fields on the basis of the number of able-bodied people in each family. Grain ration fields were equally distributed

according to population, for the most part, to take care of the basic grain rations of the rural population to support society. In the responsibility fields system, three methods are employed as more rational ways of allocating resources, namely contracting on a per capita basis, contracting on a manpower basis, and contracting by calling for tenders. The reason for this system change was that government and communities wanted to use the separation of the two kinds of fields to introduce the competition mechanism and concentrate some of the land resources for special purposes and for enterprises. In the actual course of farming, some also saw the "two kinds of fields system" as a means of readjusting benefits without changing the contract farming of land. During the contracting period, field plots were divided into "grain ration fields" and "responsibility fields," the portion of grain ration fields increasing as population increased, and withholding and fixed contract procurement quotas being reduced; the portion of grain fields decreasing as population decreases, and withholding and fixed contract procurement quotas correspondingly increasing. This was termed "changing the books without changing the land. Results were quite good.

Leaving aside the forcible concentration of peasant fields in some places that had as its goal the collection of more money from contracting (i.e., the apportionment to the peasants of a portion of land on which to grow grain rations, all remaining land being either sold on tenders or leased at high prices), the peasants consequently losing more than a half of their land use rights, benefits from the "two kinds of fields system" far outweighed the shortcomings of the system. At least in Pingdu City in Shandong Province, where the "two kinds of fields system" originated, results from this system innovation were remarkable. Pingdu City's "two kinds of fields system" began in 1984. This system originated because it was physically impossible to divide up two combines that Gaoe Hamlet had purchased during the people's commune era. Because the community leaders enjoyed popular trust, the amount of dialogue and discussion needed with community members was greatly reduced at the time that the system was set up. Consequently, once the "two kinds of fields system" began throughout the city in 1987, Pingdu City rebuilt a complete basic rural system suited to development of the local economy based on the family contract responsibility system and centering around the idea of a "two kinds of fields system" that included land, management, accumulations, services, and organization. Its gross output value increased 129 percent between 1987 and 1991, and the rural economy's gross income increased 90.6 percent, including a 68.5 percent increase in receipts of the primary industry [agriculture]. Gross output of grain increased 17.8 percent, and peasant per capita net income increased from 732 to 1,044 yuan. Furthermore, thanks to the impetus that the "two kinds of fields system" provided, the collective, which was the dominant form of land ownership, and peasant households, which were the dominant holders of land-use rights, both

took part in markets. The dynamic process of turning over land for cultivation to peasants in return for payment brought about the recreation of a two-tier village and household asset system. Thanks to introduction of the market competition mechanism, not only was the problem of the state obtaining agricultural surpluses and community withholdings solved through the "responsibility fields system," but the problem of dividing the land into minute plots was also solved through collectivization. It is particularly noteworthy that in planning the "two different kinds of fields system," all 2.6 million mu of land in Pingdu City, which was under jurisdiction of 1,700 administrative villages, worked by a 1.2 million agricultural population, and included machinery, water conservancy, and plant protection services, was included in continuous tracts, the largest of which included eight villages. No one expressed opposition to this plan. The peasant cooperative fund, which was founded on returns from "incremental contracting fees," amassed 100 million yuan, with no infringement of peasant rights and interests. Between 1987 and 1991, village and peasant household property increased 69.6 and 153 percent respectively. This became known as the "Pingdu innovation." (Footnote) (Wen Tiejun [3306 6993 6511], "Theoretical Discussion Set Off by the "Pingdu Innovation," NONGCUN JINGJI WEN GAO, No. 7, 1992) This fully attested to the very remarkable performance of the "two kinds of fields system."

In more ordinary terms, the performance of the "two kinds of fields system" appeared not only in its curing of the ills of the former system, but in its respect for the interests of the peasants, the community, and the government. As regards the peasants, the "two kinds of fields system" ensured both their equal survival rights within the community and their enjoyment, as they personally desired, of the rights and obligations attending the farming of responsibility fields. For the community, the clearly stated leasing fees for responsibility fields permitted the community to reduce both "negotiating" fees with peasant households over various expenditures within the community and cadre remuneration, and also ensured the more healthy completion of various tasks assigned by higher authority. For the government, the "two kinds of fields system" abided by the principles of fairness and efficiency. It both kept the family farming system stable and also made it easier for the state to get hold of agricultural "surpluses." Essentially, the inclusion of "grain ration fields" in the "two kinds of field system" satisfied peasant desires to have land permanently, and the "responsibility fields" idea satisfied the interests of the government and the community, thereby lessening uncertainties and expenses in trading surpluses under the land equalization system. In this sense, the "two kinds of fields system" arrangement brought about some "Pareto-improvement." [Pareto's laws states that the distribution of incomes in various countries and various ages tends to be similar despite differences in governmental policies such as taxation]

2. *Farming on a Proper Scale* (Footnote) ("Farming on a proper scale" is not an accurate economic term. The term "economies of scale" is more in keeping with economics usage, but that goes beyond the scope of this article).

By comparison with the "two kinds of fields system," farming on a proper scale is more the result of a change in the supply-guided system. It is practiced mostly in the suburbs of large cities and in developed coastal areas. A capsulization of the connotations and denotations of the proper farming scale system reveals two different types: The first is the proper scale of land use founded on collective farms as represented by Shunyi in Beijing. The second is the proper scale of land use founded on large grain growing households (family farms) represented by Su'n'an in Jiangsu and Nanhai in Guangdong. A point about this type requiring a little explanation is that in recent years, the proper scale of farming as a system innovation for grain production in Nanhai, Guangdong, shows up more in crops other than grain, such as the growing on a proper scale of vegetables and fruits.

The proper scale of farming system innovation showed from the very beginning an intense government desire and an organization and mobilization capability. Take, for example, the origin and development of proper scale farming in Shunyi County. When proper scale farming just began in 1986, the main problems faced were as follows: First was the development of industries other than agriculture, transferring large numbers of agricultural workers who farmed in conjunction with other occupations. Peasant income from farming the land was not high, and the soil productivity rate was less than ideal. A 6.4 percent annual increase in grain between 1978 and 1984 fell to 1.2 percent between 1984 and 1986. Interest in the family contract responsibility system weakened. Second was the fixed assets produced by the accumulation of capital construction and inputs into agriculture over many years, as well as the related machinery and appurtenances, which correspondingly lowered system costs in farming on a proper scale. Third was the development of other than agriculture. The community had ample collective economic strength and considerable ability to maintain the system. Fourth was no marked differences in public understanding within the community. Community leaders had rather good organizational ability. The most fundamental problem was the narrow scale of peasant household farming under the land equalization system, which was simply unable to produce commensurate benefits of scale. Magnification of system defects will adversely affect expression of system performance. Moreover, since key element markets have not been established and markets for the transfer of land-use rights are lacking, how to accumulate land on a scale sufficient to yield a correspondingly high land productivity rate and labor productivity rate is a problem that it is very difficult to rely on the parties concerned in the economy to decide themselves. Actually, in planning the proper scale of farming system, political objectives aside, the participants in the

economy and government decisionmakers are at variance with each other over expectations from the system's economic goals. The expected net benefit of government decisionmakers is focused more on stabilizing agriculture, stabilizing the grain supply, assuring that the state gets more agricultural "surpluses," and avoiding having cultivated land lie fallow. The participants, however, pin their expectations more on being able to gain equal compensation after making equal effort. These anticipated benefit and system goal differences clearly mean that the limitations on the proper farming scale system are far greater than those in the land equalization system and the "two kinds of fields system." Consequently, demands for a change in the system are not likely to come from the parties concerned in the economy, but rather only from system choices made by the government and the community after weighing system gains and losses. Therefore, in view of the need to overcome system defects and lower system change trading costs, naturally, government will be the natural supplier of proper farming scale system plans.

Government initiation and promotion characterize the proper scale farming system, but methods for changing the system and the bases of the system differ. At Shunyi in Beijing, the basic method is to use administrative means to found collective farms that convert family farming into collective farming. Three main methods of farming are used: The first is village operation of collective farms. Collective farms run solely by the collective farm 62.8 percent of the area, with 146 mu per capita being farmed. Second is the use of specially trained manpower and contracting of a certain amount of land, with the addition of socialized services for farming on two levels. This form of farming is done on 28.8 percent of the area, 36.7 mu per capita farmed. The third is single family farming, families contracting 8.4 percent of the area, farming 8.9 mu per capita. (Footnote) (NONG-MIN RIBAO, 19 January 1994). Collective farms predominate. Naturally, the connotations and the rules of operation of collective farms differ greatly from the collective farm system of the former people's commune system. They better link individual effort and compensation with the system providing incentives. In addition, during the past two years the Shunyi Collective Farm has begun to introduce business-style farming and the cooperative share system for the gradual formation of a new operating mechanism.

The greatest difference between Shunyi in Beijing and Su'n'an and Nanhai in starting up and promoting proper scale of land operations lies in family farming being the basis for farming on a proper scale in the latter. Farming in Su'n'an and Nanhai is of three kinds, namely family farms (big farming households), a "two kinds of fields system" that realizes proper scale of operations by centralizing responsibility fields, and village-run farms (agricultural shops). Though different in size, all pay extremely close attention to the wishes and tolerance of peasant households in the community. They maintain

the system motivation of the family contract responsibility system and the advantages of autonomy in farming. During the past year or two, as the strength of the community economy has increased and community organization and mobilization capabilities have risen, and particularly because of system considerations, the percentage of village-run farms has shown a steady rising trend in Su'nan.

In reflecting on the proper scale of farming system during the past several years, there is one important approach that must be given special attention, namely that government's need to ensure steady increases in grain production and to maintain sustained development of agriculture means that the system is decided not just by political goals, but also by economic goals. The most important condition for development is large scale community use of industry to supplement agriculture, and the use of industry to subsidize agriculture. The larger the scale, the greater the subsidies. The focus of peasant household expansion of the scale of farming is their hope that as the scale of farming expands, it will bring larger scale earnings and greater labor efficiency, as well as provide subsidies on a larger scale.

Frankly speaking, of course, the proper scale of farming system used in Shunyi, in Su'nan, and Nanhai all show some problems in actual operation. One is that relative to family farming, the various subsidy costs in maintaining a proper scale of farming are too high and system costs are also too high. The community cannot bear them. Second, in farms that practice collective farming, supervision costs and unfair distribution problems still exist. Third, community members naturally enjoy equal land use rights, and clashes that are bound to occur in the adjustment of interests in the collectivization process are difficult to reconcile. Therefore, limiting conditions are numerous and system operating costs are too high. Consequently, farming the land at a proper scale can hardly sustain agriculture effectively, especially the ability of grain production to operate by itself. This may be one of the most outstanding system defects in the system of farming at a proper scale.

In order for the new system to show better results, during the past two years some places have revised the system as their particular limitations permit. In terms of innovation, these revisions may be capsulized as follows: First is "back contracting." Back contracting means contracting the land back to the collective in return for grain rations or a corresponding leasing fee, with the peasant household continuing to maintain contracting rights. After concentrating plots, the collective then leases the land to large farming households or other economic units to gain benefits from the scale of farming. Second is "contracting land elsewhere." This entails a matching of tillers to the land, demolishing administrative area limits, and encouraging peasant households and enterprises from other counties, other provinces, or even other countries to come to the community to lease land. This gets around the problem of having land lie fallow

and also forms the basis for farming at a proper scale. Third is the cooperative shares system. Under this system, a peasant household does not farm the land. Instead, it obtains shares for its contract rights from which it enjoys a year-end bonus. Collectives set up agricultural share companies, the companies and collectives forming a land contracting renter-tenant relationship, with the land being farmed as a business.

3. *Auctioning of use rights for the "four wastelands."* (Footnote) (The "four wastelands" are barren mountains, barren slopes, barren flats, and barren ravines." Because the classification of uncultivated land resources varies, some places also include "barren water" and "barren sands," making "five wastelands" and "six wastelands." The analysis in this article is limited to actual data surveyed in Lushan Prefecture, Shanxi Province).

The auctioning of "four wastelands" use rights originated from the spontaneous demand of parties concerned in the economy, and, just as when contracting output to households was first chosen, it expressed a marked demand-led system change. Take events in Luliang, Shanxi Province, as a live example. Ever since 1982, as the output-related contract responsibility system has moved ahead, Luliang Prefecture has practiced a family contract responsibility system for farming. At the same time, as part of taming the "four wastelands," it has changed its traditional methods. Instead of large collective forces doing battle to bring the "four wastelands" under control, "individual households contract the reclamation of small wasteland areas." Initial results have been scored in this effort. However, since "four wasteland" resources are "factories without walls," much depends on external factors in using resources and protecting property rights. Furthermore, since the amount of investment needed to harness and develop the "four wastelands" is greater than for cultivated land, and a longer period is required to get results, the parties concerned must possess a lot more courage and resourcefulness than ordinary peasant households. Household contracting of the reclamation of small wasteland areas is more simply the transplanting of the contract mechanism used for farming cultivated land. The drawbacks that ensue from unclear property ownership relationships are very marked. Problems abound in the form of contracting but failing to reclaim, reclaiming but not taking proper care, and short-term behavior. The superficial reasons appear to be that household contracting of the harnessing of small basins serves to combine responsibility, authority and benefits with reclamation, use, and care. This marks a major breakthrough for collective reclamation and collective farming. However, problems remaining from former days in the building of a land system, and too many readjustments in the land system have a profoundly damaging effect on peasant behavior in reclaiming the "four wastelands." The farming rights that a simple contract relationship provides peasants is very incomplete.

Substantive problems show up in the following way: First of all, "contracting" cannot give a sense of permanence or a sense of ownership to peasant households that contract reclamation of the "four wastelands," and this sense of permanence and ownership is especially important when large inputs, long-term development, and arduous efforts are required before a peasant household can realize returns from the reclamation of the "four wastelands." A 10-year contract is a 10-year contract and a 100-year contract is a 100-year contract, but from the peasants perspective, both contracting to households and extended contract periods are still just contracting in the end. In the final analysis, "contracting" means working on something that is not one's own, and it is also contracting for which no payment is made. "Since the government can contract with me to reclaim the land without payment today, it can turn the land over to someone else to farm without payment tomorrow." This simple yet realistic state of mind of the peasants expresses their real desires, namely, what they want is not to contract the land, but to "own" the land in a certain sense. They want to have a long-term, stable sense of "possession." Until this problem is solved, any real arousal of peasant interest in reclaiming the "four wastelands" will be impossible. Second, in many places frequent changes occur in the contracting of farmland. Sometimes contracts are torn up at will, the fruits of peasant labor plundered, forests and grasslands destroyed, and no protection afforded the rights of contracting households. So long as land rights relationships are not clear, and the peasants have no "right of possession" in a real sense, such problems can occur extremely easily, and once they occur, solutions are very difficult to come by. A random survey conducted in Luliang Prefecture in 1992 on the subject of why peasants contract but do not reclaim land found the following: Because of frequent change in the contracting of farming rights, 30 percent of peasants abandoned reclamation; and because they were unable to obtain full farming autonomy and direct benefit rights, 45 percent of peasant households gave up reclamation. Consequently, only 8 percent of all peasant households have taken part in reclaiming the "four wastelands" during the past several years. Third, since no mechanism exists for transferring land, opening up and reclaiming the "four wastelands" has been limited to members of the community. This limits the flow and the optimal organization of key production elements over a wider area.

Actually, the exploration of reform as a demand-led system innovation began quietly 10 years ago in some rural villages of Luliang Prefecture. In 1983, Ma Youcai of Zhongheng Village, Liulin County, bought the use rights to 157 mu of "four wastelands" in his village. Over a decade, not only did he reclaim all of it, but he earned as much as 10,000 yuan each year. In 1988, Qugu Township in Linxian County auctioned off 108 parcels of 100 mu or more each over a 320,000 mu area. This accounted for 91.7 percent of all the "four wastelands" in the township. In that same year, reclamation began.

By 1992, 120,000 yuan and 600,000 man-hours had been invested, and 220,000 date trees and 30,000 timber forest trees had been planted. Results from five years of reclamation were greater than the sum total of more than 40 years of reclamation results before liberation.

New advances in land use realized by changing from "contracting" to "auctioning" use rights to peasants for a long period without change gives the peasants a true sense of permanence and a sense of jurisdiction over land-use rights for a long time. The peasants say: "Only when one puts up the money himself to buy is there any safety and insurance," and "spending money buys peace of mind." Thus, they do not mind investing labor and money in long-term development and reclamation, and in maintaining the land carefully. After Comrade Deng Xiaoping's remarks during his travels in South China in 1992, the Luliang Prefecture CPC Committee seized the opportunity. Proceeding from the "three facilitates" standards, they gave high marks to, and completely affirmed the auctioning of, "four wastelands" tenure. They promptly drew up "Views on the Auctioning of Use Rights for Barren Mountains, Barren Slopes, Barren Ravines, and Barren Flats To Accelerate Reclamation of Small Basins," which contained clear-cut provisions for the auctioning of use rights to the "four wastelands." Those who purchased and reclaimed these wastelands were to enjoy returns from them for a period ranging from 50 to 100 years, and the land could be inherited and transferred. This opened the curtain on the auctioning of "four wastelands" use rights over a wider area. It opened the way to Chinese rural villages auctioning "four wastelands." By 1993, 1,459,000 mu of the 4.7 million mu of "four wastelands" in Luliang Prefecture had been auctioned, and 746,000 mu had been reclaimed.

The marked achievements and the prominent innovative significance of "four wastelands" auctioning within a very short time lies in the way wasteland was purchased and the way it was "auctioned." First, purchases of wasteland were not confined to people within the administrative district; auctioning to the public at large of use rights to the "four wastelands" was permitted. Second, the usual limits on ownership were exceeded to permit different economic entities to buy "four wastelands" use rights. Third, the contracting was extended to 100 years, with no changes permitted. Fourth, the rights of purchasers were guaranteed. Land that was developed and reclaimed could be inherited, transferred, or mortgaged. Thanks to a policy that permitted the purchase by local people or outsiders of "four wastelands" use rights by independent households, households in partnership, cadres and staff members in state organizations and collective units having the ability to reclaim them, numerous methods of buying wasteland sprang up. 1) Individual household purchases for aggregate development. This was the main form of "four wastelands" auctioning. When individual households made purchases, the area was not large and the investment was not great. Peasant households could decide the area they

would purchase on the basis of the number of able-bodied people in the family and its financial status. Reclamation and development was convenient and flexible, returns were remarkable, and interest relationships were clear-cut. 2) Partnership purchases for joint reclamation. Peasants from within an area combined voluntarily to form joint labor, technology, and production interest communities. Mostly two or three households joined together mostly to buy 500 or so mu. This method effectively remedied the money, manpower, and technology problems independent households faced in making purchases. It could also make the most of individual strengths to produce the benefits of scale. 3) Collective reclamation but individual household purchases. When the area was fairly large or environmental conditions poor, and short-term returns uncertain, thereby making reclamation of "four wastelands" by individual households difficult, quite a few places resorted to collective raising of money or to organizing labor to tackle preliminary reclamation together, with individual households subsequently buying the land for development. This method occurred mostly either in villages in which the collective economy was fairly strong, or in fairly impoverished villages. 4) Purchase by government organizations and groups and by enterprises and institutions. This occurred mostly in some places having a large "four wastelands" area where reclamation difficulties were great and much investment of money, manpower, and technology was needed.

From the very beginning, Luliang Prefecture introduced market and competition mechanisms in the transfer of "four wastelands" use rights and building the system. It put into effect "democratic setting of bids, open submission of tenders, and contract stability," conferring on the economic parties concerned all farming, benefit, and disposition rights during the auction period. It also employed different auctioning methods as circumstances warranted. One was competitive bid auctioning in which the auction price was set by the community on the basis of the area of the "four wastelands," the degree of difficulty in reclaiming them, the auction period, and anticipated returns, with public tenders called for first within and then outside the region. Second was negotiated auctioning. This method was applied to fairly difficult to reclaim areas that had been previously contracted and on which peasants had done initial reclamation work. When the peasants desired, a contract could be changed to an auction, with the village and the buying household or contracting household negotiating the fixed price at which the wasteland is auctioned.

Practice in Luliang Prefecture showed that the auction price of "four wastelands" might be high or low, high being as much as 100 yuan per mu, and low being several yuan per mu. If the auction price were paid in a single installment, a price concession was given, but the price could be paid in several installments. Requirements for reclamation of the "four wastelands" once they were auctioned were strict and collateral was posted. The

buyer and the seller signed a "four wastelands" reclamation contract, which was notarized by a notary public and had the force of law. Should one fail to buy after winning a bid, or not reclaim the land within the period stimulated in the contract, the posted collateral would become a fine and use rights would be revoked.

Despite the "four wastelands" use right auction system innovation, the earliest demand-led system change from bottom to top became a government system applied from top to bottom, and the period it was practiced over an area larger than where it originated was not long. Furthermore, as a new system, the auctioning of "four wastelands" use rights still retained numerous problems requiring further study. However, the system performance and system expansion results that the innovation showed were extremely remarkable. The first was that a longer "four wastelands" use rights period greatly increased the expectations of parties concerned. The reform was regarded as long-term rather than temporary. The participants were confident that they could enjoy remuneration for their efforts. Many years of short-term behavior in farming by peasant households was obliterated in "four wastelands" development and reclamation. Long-term behavior in the use of land wrote a final footnote to system stabilization. Second, the fairly complete delineation of property rights enabled the participants to supplant the government as the principle investors in development and reclamation. Third, farming the land on a proper scale, which is difficult enough to achieve on cultivated land, was not promoted after auctioning of "four wastelands" use rights. Fourth, the auctioning of "four wastelands" use rights enabled dual use of both idle natural resources and manpower resources. It found the optimal convergence point for peasants in impoverished mountain regions to shed poverty and become prosperous.

Although the "four wastelands" use rights auctioning system innovation found expression in the development of other than cultivated land resources, since the achievements of the system's inherent rules are far greater than possible shortcomings, the inspiration for farmland system innovation is multiple: First, the "four wastelands" use rights system provides opportunities to initiate profound reform of the farmland system. Luliang Prefecture's bold basic experience in "four wastelands" auctioning was introduced into cultivated land system reform. Mostly by extending the farmland-use rights period and clarifying property rights, using a basic approach of protecting ownership rights, making use rights permanent, and making farming rights flexible, a policy was instituted of "increasing people without increasing land, and reducing people without reducing land." This gave the peasants fuller land-use rights and a sufficiently long period of use, thereby putting a virtual end to the various drawbacks that frequent land adjustments brought and the possibility of corrupt practices. Second, because the entire process from the beginning of

the idea of auctioning "four wastelands" and the formulation of policies to fair competition, and on to proceeding with reclamation and development after winning a bid was suffused with competition and challenges, it was a major step forward in guiding the peasants toward a market economy. Third, the effect of movement toward the market of land, the most basic means of production of rural villages, induced or accelerated movement toward the market of other key elements of production such as technology, manpower, and capital. Land served as a means for spurring the rational flow and scientific allocation of other key elements of production. Thus, the rural village economy in these areas sprouted new production points in genuine expression of the principle of markets being key elements in the allocation of production resources. Fourth, this policy advanced new development of the rural cooperative share economy. Impelled by the common goal of developing the "four wastelands," peasants, city and town residents, and enterprises, as well as various social groups, used various means to form distinctive cooperative share system economic organizations.

IV. Further Analysis

The three system innovations, namely the two kinds of fields system, proper scale of farming, and "four wastelands" use rights auctions represent the basic direction of China's farmland system innovations at the present time. But what kind of anticipated returns do the different systems produce, and do these systems make sense?

Analysis of the two kinds of fields system—the system that covers the widest area since land equalization contracting—shows that if we leave aside the whole body of system building norms for the two kinds of fields systems at Pingdu and the powerful organization and mobilization capabilities of the community, and talk about the anticipated net benefits to be obtained from a more commonplace system, obviously one thing to be considered is the equal rights in getting land-use rights to ensure support for community member survival. This is actually also a smart move for reducing community cadre trading expenses. In addition are the questions of how to distribute agricultural "surpluses" over and above those needed to maintain survival, and how more efficiently to allocate resources within the community. These are basic questions that the community has to deal with in designing a system and conducting system innovations. How to achieve both "fairness and efficiency" is an issue on which the community exhibits a desire that is far stronger than the demand for a system of the economic participants and the supply of a system by the government. The system change process requires attention to the interests of government, the community, and peasant households. In the two kinds of fields system, the "grain ration fields" abide fully by the principle of "land to the tiller." By contrast, "responsibility fields" pay more attention to the priority of equality giving way to the priority of efficiency. It focuses on efficiency in the

allocation of resources. Since the inherent rules of the two kinds of fields determine the system design, this is actually a system from which the community gains budgeted net benefits most economically. Of course, how to promote the turnover of resources in a two kinds of fields system, and particularly in the "responsibility fields" set-up to make the allocation of resources more rational and give attention to farming on a proper scale may be a key issue that must be given attention in the two kinds of fields system change process. Of course, attention must be paid to failure to take into consideration the limitations of restrictive conditions, purely taking the acquisition of more "contracting fees" and controlling more resources that can be allocated to community cadres, and mandatorily calling for tenders or leasing at high prices fields other than a portion allocated to the peasants for the growing of their grain rations.

Most farming on a proper scale has appeared in the suburbs of large and medium-sized cities and developed coastal areas where there is least room for maneuver for manpower and land resources; furthermore, without exception, this stems from government policy decisions about the system. Clearly, this is deeply rooted in the system. After more than a decade of reform, simultaneous with the rapid inflation of the economy of developed areas overall, both extraordinarily developed non-agricultural industries and agriculture, which has received a cold shoulder, particularly the grain industry, have emerged. On the one hand, a great scarcity of cultivated land exists, while at the same time the amount of cultivated land that is allowed to lie fallow increases daily. (Footnote) (A Ministry of Agriculture 1994 preliminary survey showed that during the winter of 1993, 2 million mu of the 25 million mu of the cultivated land in Zhejiang Province was not farmed, and in the spring of 1994, more than 7 million mu, or 28 percent of the cultivated land area was allowed to lie fallow. A survey of four counties and cities in Jiangsu and Shandong provinces showed that only 1.4 percent of cultivated land was openly allowed to lie fallow, but more than 20 percent was secretly allowed to lie fallow). The enormous difference in income between industry and agriculture, which means that the compensation received for hard work is not the same, not only highlights the shortcoming of the contract system, but also shows the extremely strict limitations of any system innovation may overshadow its benefits. How to make agriculture perform consistently and how to make the grain industry perform consistently so that peasants do not take cultivated land out of cultivation has become the biggest expectation of system planning in developed areas. Therefore, it would be better to suppose this system choice has a more passive significance than to suppose that proper scale farming develops out of active government behavior. Thus it is no wonder that on the day that proper scale farming began, there was no end of controversy about methods for making system choices, systems, and forms of action. Naturally, after many years of run-ins, the

standards for government behavior show rational choices. The proper scale economy along the southeast coasts, in particular, really shows greater system performance in helping achieve consistency in agriculture and in the grain industry than either the land equalization system or the two kinds of fields system. Furthermore, the planning of this kind of regional scale farming system is founded on the family contract responsibility system. It is a quantitative expansion of scale. It maintains the advantages of family-run farming while simultaneously augmenting the community policy of using industry to build and augment agriculture. Significantly, the principle of voluntary participation is a prerequisite throughout for promoting the system. Actually, the proper scale farming system expresses the following in a profound way: Results from applying proper scale farming in economically developed areas, particularly in nonagricultural developed communities is that peasants transform "weak industries" for the community; conversely, communities replace the government in providing more support for regional agriculture. For just this reason alone, proper scale farming is a sensible system for economically developed areas.

In planning a system for auctioning use rights to the "four wastelands," one must consider the basic characteristics of resources other than cultivated land. First, a substantial investment of labor and money must be made; second, external factors play a strong role, and the easiest way to overcome these external factors is to define property rights. Therefore, the key points in a "four wastelands" use rights auctioning system are: first, provide a sufficiently long duration of the system; second, provide property rights borders that are more exact than the cultivated land resources, and provide as large as possible anticipated net returns. This is because under the "four wastelands" use rights auctioning system, the participants in the economy buy "four wastelands" use rights just once. They may transfer them, lease them, pass them along to their heirs, or mortgage them. Their property rights are complete. In addition, a sufficiently long land transfer period permits participants to make a return on their efforts through repeated earnings. In addition, a relaxed external environment for implementing the system means that since the "four wastelands" are a noncultivated land resource, they carry no obligation to provide an agricultural "surplus" to the state, nor are they limited by, or at least greatly limited by, restrictions on providing the peasants a basic living. System costs are minimal and risks least. Most important, the period following auctioning of "four wastelands" use rights has the character of a final sale. The peasant participants have disposition rights in a complete sense, the community retaining only nominal ownership rights. Furthermore, after the "auction money" has been collected, the peasant has a feeling that "the land has come back home." The participant becomes the natural main investing entity in the reclamation of the "four wastelands." Objectively speaking, this system innovation not only uses a resource that has

lain idle for many years, but the government, the community, and the peasants all benefit. System performance is evident.

Naturally, since "four wastelands" use rights auctions are a "final sale" that produces long-term returns from development, several problems should be given adequate attention: First is the need to ensure that the participation of peasants from the community in the auction is broad and of a mass character. While bearing in mind the principle of efficiency first, attention must be given the equal rights of community members. Second, except for direct production and business processes, both the community and government should provide services including technical guidance, market information, processing and marketing of products, and planning of reclamation and development. Third is strict definition of property rights according to law for "four wastelands" use rights.

Of course, nowadays, in both demand-led system changes and supply-guided system changes to farmland system innovation, the understanding of system limitation variables of those who make decisions about systems is more profound than formerly. One should take into account not just anticipated return inducements, but also the cost limitations that system innovation incurs. In this connection, no matter whether it is a government or community provided system, it should be a sensible choice. When the market economy is fully developed, in particular, maximization of anticipated net returns from a government-provided system requires payment of higher costs than in a demand-led system. Therefore, moving ahead after experimentation is probably the one economic method that offers best efficiency and lowest costs. The system innovation experimental zones that the Chinese government set up one after another to study system problems in different areas, including the two kinds of fields system in Pingdu, the proper scale of farming in Su'nan, and the mountain land exchange system at Huaihua in Hunan, provided theories and experiences for further reforms. Adoption of the these regulated supply methods and the more evident beneficial parts helped lower the possibility of mistakes resulting from incomplete government information, and helped eliminate various factors that inhibited system innovation. Thus, with the help of government stimulation of reform and thanks to limitations found in pilot projects, the reform risks that the government carried were reduced. (Footnote) (Yang Ruilong [2799 3843 7893], "On Clashes Between China's System Change Methods and Selection of System Goals and Their Reconciliation," JINGJI YANJIU [ECONOMIC RESEARCH], No 5, 1994) Changes to make government behavior more rational clearly merits praise.

V. Simple Explanation and Conclusions

Use of system economics theory in analyzing the history and present status of changes in China's farmland system is still fairly difficult to attempt at the present time. In

the analysis process, we feel how great is the effect on the farmland system of differences in Chinese society, economy, culture, and nature, and even that no part of the national economy is like that of agriculture. We also realize that it provides a wealth of authentic data for the application of system economics in China. We also feel undecided in the Chinese farmland innovation process about how to treat fairly the numerous variable limitations. In addition, we feel profoundly that fitting pure system economics into oriental society, particularly into oriental society ideology, will be a protracted process. Therefore, it is very difficult to use normal system economics terminology to define the constantly evolving Chinese farmland system process of change. A demand-led system change is, without doubt, the mark of an economy in which markets play a greater role; however, in special circumstances, supply-guided system changes likewise reveal marked system accomplishments. The economic problems that China's farmland system itself reveals are so vast that hastily drawn conclusions risk superficiality. However, the problems that the system solves, the problems that exist, and the problems that may appear also impel us to arrive at a conclusion no matter how crude.

1. China is a nation having plentiful government-provided systems. However, China's farmland innovations and rural reforms stem from a demand-led system change process. Right up to the present time, one can find evidence from top to bottom that the initial design of the land equalization system, the two kinds of fields system, "four wastelands" use rights auctioning, and even farming on a proper scale were demand led. However, in the absence of government wishes and capabilities, and without government initiation and impetus, even if the government acquiesces, the spread of system innovations over a wide area is unimaginable in China. Therefore, in choosing system change methods and in choosing who will provide the system, the sensible thing to do is concentrate more on the system that provides greatest results or has the lowest costs. The form adopted is secondary.

2. The defects that have come to light in the course of operation of the family contract responsibility system, which is a major system innovation, may be attributed more to the limitations of economic variables outside the system. Substantively, the accomplishments of the family contract responsibility system have been immeasurable, so much so that for a long period, it has served as the basis for most farmland system innovations. One might change the scale of family farming in the system, but the core of the system—full motivation and no need for supervision—cannot be changed. When making so-called innovations in any farmland system, one must not attempt to change the family farming basis. This has actually been demonstrated through trial and error in many farmland systems.

3. How to make government more rational in system planning, and how to reconcile goals in demand systems

with supply systems should be important principles in system innovation. Past failed systems (such as the people's commune system) and existing successful systems (such as the family contract responsibility system) attest that the unilateral abilities and desires of the supplier of systems are not enough. Numerous variables such as the cost of designing the new system, accumulated information, constitutional order, traditional ethical norms, and the public will must be taken into consideration as well. So long as efforts are made to make anticipated net benefits from the system greater, even the compromises of decisionmakers may be accepted as wise moves. Economics readily attests that "the only standard for evaluating effectiveness is unanimity of agreement." "At minimum, the total utility of a deal in which one party does not agree will be lower than a deal in which both parties agree." (Footnote) (Sheng Hong [4141 3163], "Conditions, Limitations, and Forms of General Adoption of Market Principles," JINGJI YANJIU, No 11, 1992) Naturally in fields in which outside influences are marked, the unilateral behavior of government is also very effective—in the capital construction of agriculture and in agricultural scientific research, for example. Government does not have to go through discussions in order to act and to take the initiative.

4. The discussion in this article has concentrated largely on demonstrating changes in China's farmland system. Actually, Chinese farmland system changes have been subject to too many pressures that they should not bear. This has meant that the first consideration in planning and carrying out any farmland system innovation has been achievements that do not stem from the system itself, and that are not even economic issues, but rather are more related to the harsh requirements that socio-economic development has placed on agriculture and to too many political goals. No wonder that system innovations always go round and round in a circle and encounter too many conditions restricting the system. Therefore, realizing more anticipated net benefit from systems and avoiding clashes between the form of system changes and goals in selecting a system probably will have to await rather thorough eradication of the present practice of assigning too many "duties" to agriculture and industry taking away too much agricultural surplus. Ultimately hopes will have to be pinned on elimination of the dual city and countryside and industrial and agricultural economies. Unless this is done, the present farmland system will retain traces of mere system "readjustment." It will not be an innovation in the true sense.

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East Region

Dogs Cause Rabies, Other Problems in Shanghai

HK2303055495 Beijing ZHONGGUO XINWEN SHE
in English 1345 GMT 22 Mar 95

[FBIS Transcribed Text] Shanghai, March 22 (CNS)—According to conservative estimate by an authoritative department in Shanghai, there is a total of 180,000 dogs in Shanghai, of which more than 100,000 dogs are illegally raised without being quarantined by sanitation departments. There were nearly 44,000 reports by people in Shanghai who were bitten by dogs last year, a rate of one person being bitten by a dog every 12 minutes.

These accidents have become a serious health risk in Shanghai. Those bitten by dogs are likely to be transmitted by various types of diseases. The epidemic prevention station in Shanghai quarantined 82 dog heads last year which were cut from dogs captured and killed after they were reported to have attacked on a number of occasions. 23 of these dogs were discovered as carriers of the hydrophobia [rabies] virus. One dog carrying hydrophobia virus had bitten more than 20 people in a busy street during the daytime, and public security police, patrol-men and a special police force in a joint operation laid a siege to shoot the dog.

Since 1987, a total 240,000 dogs have been captured and killed in Shanghai, with over 11,000 dogs killed in last year alone. However, due to a variety of reasons, dog-related incidents remain rife in Shanghai. In suburbs in particular, illegally-raised dogs wander about freely, causing a number of accidents.

Central-South Region

Guangdong To Set Up Ecological Forestry System

OW2203025095 Beijing XINHUA in English 0209
GMT 22 Mar 95

[FBIS Transcribed Text] Guangzhou, March 22 (XINHUA)—South China's Guangdong Province expects to set up an ecological forestry system covering 3.33 million ha. of afforested area by the turn of this century.

Provincial officials said that the first phase of the project involves planting forests to bring short term profits, with the second to be for planting ecology protection forests.

When the project is completed, afforested areas will cover 18.5 percent of the province, whose present afforestation rate is below 10 percent.

The cost of the project will be borne by all levels of local government, which has the right to levy taxes on those who will benefit from the forestry system, officials said.

Henan Discovers Bauxite, Clay, Gallium Deposits

OW2303083995 Beijing XINHUA in English 0630
GMT 23 Mar 95

[FBIS Transcribed Text] Zhengzhou, March 23 (XINHUA)—Geologists in central China's Henan Province have discovered an especially large bauxite deposit in its western part.

The deposit has proven reserves of 120 million tons of bauxite along with 23 million tons of clay minerals and 8,200 tons of gallium, which are close to the surface and easily mined.

The area is 30 kilometers from Sanmen Gorge City near the Yellow River which provides convenient transport facilities.

Henan is rich in non-ferrous mineral resources, and its bauxite reserves rank second in the country.

Southwest Region

Telecommunications Link Whole of Guizhou

OW2203030795 Beijing XINHUA in English 0208
GMT 22 Mar 95

[FBIS Transcribed Text] Guiyang, March 22 (XINHUA)—Foreign investors in Bijie, the poorest region in southwest China's Guizhou Province, will no longer have to travel some 200 km to this provincial capital to make an international phone call.

The year 1994 saw Bijie, with some 20 other outlying counties in Guizhou, join an international telecommunications network.

Guizhou put 644 million yuan into its telecommunications sector in 1994, up 1,000 percent over 1991, to install another 200,000 program-controlled telephone lines, enabling people in more than half of its cities and counties to call directly to any part in the world.

Meanwhile, Guizhou has speeded up the construction of fiber-optic cable telecommunications network.

Guizhou had laid 647 km of fiber-optic cable by the end of 1994, and is to lay two other major fiber-optic cables this year, one of which will provide 36,000 telephone lines, the other, 3,000 lines. When the two new cables are connected with the existing lines, a 1,700-km network will link 32 counties and add over 50,000 telephone lines.

"Overseas capital has boosted the telecommunications growth," said Chen Benzhi, deputy head of the Telecommunications Bureau in Guizhou.

The past four years saw foreign entrepreneurs provide 65 million US dollars, or about one third of the total investment in the posts and telecommunications sector, bringing the telecommunications technology, including program-control and digital transmission, to the world standard.

Wireless paging and mobile telephone services have started in about half of the cities and counties in Guizhou, and were merged with the national network early this year.

Guizhou has imported the most advanced AT&T fiber-optic cable and transmission systems with eight million

US dollars in low-interest loans offered by the US Government to improve its long distant telecommunications capabilities.

Chen revealed that the investment in the telecommunications sector is expected to reach one billion yuan in 1995.

By the end of 1997 Guizhou will program-control all its urban telephones, digitalize all the telecommunications transmission, and inaugurate a postal savings network and an express mail network.

By the year 2000 fiber-optic cable communications will extend 4,000 km, and about 1.6 million telephone lines will be put into use in cities, while the telephone access rate in this provincial capital will rise to 24 percent.

Official Views Tibet's Infrastructure

OW2203192995 Beijing XINHUA in English 0643
GMT 22 Mar 95

[FBIS Transcribed Text] Lhasa, March 21 (XINHUA)—A regional official says that the Tibet Autonomous Region spent 2.025 billion yuan on fixed assets (excluding the 62 key projects aided by the central government and other provinces, municipalities and autonomous regions) last year.

It built 80 infrastructural projects, 90 percent of which were completed in the same year. They included an airport at an altitude of 4,334 meters above sea level, two chromite mines, and a 92.3-km highway.

Key projects still under construction are two power stations, and the transformation of the Tibet-Qinghai and Tibet-Sichuan highways.

Using state investment, Tibet has built more than 700 satellite telecommunications stations and opened program-controlled telephone exchanges in seven prefectures and cities.

Progress has also been made in overall agricultural development along the 50,000-sq [square] km valley of the Yarlung Zangbo River, the Lhasa and the Puncur Rivers with a total state investment of more than one billion yuan.

According to the official, preparations for the 62 projects, with a combined investment of 2.38 billion yuan, are proceeding well. So far a sum of 326 million yuan has been spent on 32 projects, which are under construction.

Northeast Region

*Jilin Auto Industry Conditions, Plans Viewed

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[SOCIAL SCIENCES FRONT] in Chinese No 1,
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[Article by Zhan Wanjin (1455 8001 6855), vice president of the First Motor Vehicle-Volkswagen Corporation: "Strategy for Developing Auto Industry in Jilin Province Under New Situation"]

[FBIS Translated Text] The automobile industry is the most important pillar industry in Jilin Province. After the founding of the People's Republic of China, the first large base area for car manufacturing in China was set up in Jilin Province—the First Motor Vehicle Plant in Changchun. This plant is regarded as the "birthplace" and the "cradle" of China's auto industry. Since the implementation of the reform and opening-up program, this plant has triumphantly completed the second undertaking of changing the old liberation model cars during the Seventh Five-Year Plan. Right now, it is developing the third undertaking of building light-duty sedan cars. At present, the plant has basically completed a pilot Audi sedan manufacturing project with a production capacity of 60,000 small cars and 30,000 Audi sedans per year. The base area with a production capacity of 150,000 popular cars will be fundamentally completed in 1994 by a Sino-German joint venture. A brand new pattern in the production of a series of large, medium-sized and small cars and mini-cars has been preliminarily formed. A plan to produce 1,000,000 cars per year is being worked out.

With the third undertaking of the First Motor Vehicle Plant in Changchun as a turning point, Jilin Province and Changchun City have energetically built urban facilities, improved the external environment for the plant, and actively tapped the potential of the local enterprises. They supported expansion of the First Motor Vehicle Manufacturing Group by helping it merge and form allies with other enterprises. They enthusiastically supported local enterprises to produce parts and accessories for the First Motor Vehicle Plant in Changchun, and effectively promoted the development of other sectors of the industry in support of car manufacturing. Meanwhile, they have actively helped the manufacture of special-purpose and remodeled cars and motorcycles. As of the end of 1992, there were 83 enterprises in the province which turned out 888 different types of parts and components for various models of cars manufactured by the First Motor Vehicle Plant in Changchun. The output value of the parts and components produced in 1992 reached 670 million yuan or 46.1 percent of the total value of parts and components used by the plant. As of the end of 1993, the total number of motor vehicles produced in the province reached 177,000 units, 14.2 percent of the total number of motor vehicles manufactured in the whole country. The total output value of Jilin's auto industry was approximately 13 billion yuan, 16 percent of the total industrial output value in the province. Jilin is a major province in China in the manufacture of motor vehicles.

Inspired by Comrade Deng Xiaoping's talk made during his inspection tour in South China and the 14th National CPC Congress, China has once again quickened the pace of carrying out reform, opening up to the outside world, and promoting economic construction. The enormous demands of and the challenge from China's re-entry into GATT in the future have forced China's auto industry to work out a new strategy. For this, the 14th National CPC Congress has reaffirmed the strategic position of the auto

industry as the pillar industry of the national economy. Leading comrades of the State Council have personally laid down the policy of rejuvenating the auto industry and plans to turn the auto industry into a pillar of the national economy within a period of approximately 16 years. Under this new situation, the Jilin auto industry, which operates on relatively large scale, will either forge ahead or gradually fall behind. It must open up its vista, seize the opportunity, develop its strong points, avoid its weaknesses, and develop a new cause.

I. Opportunity and Challenge 1. Pragmatic and potential market

A. The rapidly growing demand for cars. Propelled by rapid economic development, the demand for cars is growing with a speed much higher than expected earlier. Between 1978 and 1992, the number of private cars in China rose from 1,358,400 units to 6,917,400, with an average annual growth of 400,000 units. According to an estimate made by the Automobile Trading Corporation of China, 1.25 million motor vehicles were manufactured in the country in 1993. About 400,000 motor vehicles were imported through entrepot trade, sale in bond, border trade, and smuggling. The total domestic demand for cars in 1993 reached 1.65 million units, far exceeding the production capacity of 900,000 units set for the last stage of the "Eighth Five-Year Plan" and approaching the target of annual production capacity of 1.7 million cars by the year 2000 put forward by the State Planning Commission in 1988.

B. Controlled spending on cars. The ratio of the volume of passenger and freight transport by car and truck in China has always been lower than in other countries. Right now, the number of private cars per thousand people in China is only 0.7 unit, much lower than that in other developing nations with similar economic standards (that of India is 1.9 and Pakistan 4). Following the development of market economy and the change of people's concept on their spending for cars, more cars will be in demand. This will turn a part of the potential demand into a realistic market.

C. China is in the eve of increasing popular demand for family cars. Statistical analysis based on an average foreign family which is able to buy a car at the cost of two years of income reveals that in 1991, there 5.3 million Chinese families with an annual income of more than \$50,000 could afford to buy Xiali or other brands of less expensive cars. In foreign countries, when the per-capita GNP is less than \$500, 3-10 percent of people own cars; when the per-capita GNP is between \$500 and \$1,000, 6-20 percent of people own cars; when the per-capita GNP is between \$1,000 and \$2,000, 10-50 percent of the people own cars. China is now at the level of less than \$500 and moving towards the \$500-\$1,000 level. In accordance with the current rate of growth and the long-term plan of the state, China's GNP will reach the \$2,000 level by 2000 at the latest. At that time, there will be an explosive demand for family cars. During the

transitional period prior to this, the absolute magnitude of the demand for cars will be considerable. Our planned production capacity will not be able to cope with the demand. In order to keep pace with this situation, China's auto industry must raise its production right now. **2. Status of auto industry in national economy**

The 14th National CPC Congress regarded the auto industry as a pillar of the national economy because this industry has the special characteristics of being able to bring about a rapid growth of the national economy. The development of the auto industry is a significant strategic measure for readjusting the economic structure and promoting industrial upgrading. For this reason, the congress drew up the policy to develop the auto industry and set a goal to revitalize the industry between 2000 and 2010, and improve its competitiveness in the world. On the basis of the current foundation, China's auto industry should produce a total of 3 million cars (60 percent of which are sedans) by 2005. At that time, China should have 20.6 million motor vehicles. The total output value of the auto industry should reach 396 billion yuan, and the industry should turn over 120 billion yuan of profits and taxes to the state annually. The total annual value of exports from the auto industry should reach \$2.5 billion. Output value should account for 6 percent of that of manufacturing in China, and the added value of the auto industry should make up 2.4 percent of the GNP.

Meanwhile, the congress also formulated a series of policy measures to encourage families to buy cars, energetically support two or three large automobile industrial groups that are able to produce one million cars per year, and raise funds through various channels, including the use of foreign capital. It is estimated that a high-tide of construction on an unprecedented scale will be whipped up in the auto industry, greatly affecting the related industries which produce parts and components in support of the auto industry. **3. Impact of "China's re-entry into GATT"**

One of important GATT principles is to remove trade barriers and promote fair competition. Right now the import duty for cars into the EC is 10 percent, that for commercial cars 25 percent, and that for parts and components 3-4 percent in average. The import duty for complete cars into Korea, a latecomer in the automobile industry, has been lowered each year from 30 percent in 1988 to 10 percent in 1993. China has always adopted a quota and import license system for imported cars and imposed high customs duties. Prior to 1992, the import duty plus the import regulatory tax for complete cars exceeded 200 percent. After 1992, the import regulatory tax was abolished, but the import duty was raised to 180-220 percent. Since the beginning of 1994, the import duty was further lowered to 110-150 percent. Graded tariff rates ranging from 32 to 60 percent were applied to complete sets of parts and components imported by state-designated car manufacturing enterprises

Due to relatively lower production quality, high production costs, and limited production capacity, China's auto industry cannot take things as they are. It will face a grave life or death crisis. According to certain GATT provisions, China may use some measures for several years to protect its automobile industry as an industry in infancy of a developing nation. In the next two to three years, China's industry will be forced to stand and fight. It must fully utilize its existing foundation to improve its world competitiveness as soon as possible. **4. Build flourishing border and coastal provinces**

Jilin Province and Changchun City have set a goal to build border and coastal provinces and internationalized cities, vigorously develop the local economy, and promote the reform and opening-up program. This not only serves to improve external conditions, but also widens their vista for further developing industry.

First, the auto industry is a local leading industry which gives impetus to economic development in Jilin. After achieving the goal of producing 150,000 cars per year, the First Motor Vehicle-Volkswagen Corporation will have an output value exceeding 10-15 billion yuan. If it produces 300,000 cars per year, its output value will exceed 20-30 billion yuan. Adding the output value of the related local industries in production of parts and components, the contribution of the Jilin automobile industry to the provincial economy will be even greater.

Second, the auto industry plays a decisive role in opening Jilin wider to the outside world. Opening up to the outside world and participating in the international division of labor and competition are outstanding characteristics of the auto industry. The First Motor Vehicle-Volkswagen Corporation has foreign investment of more than \$500 million, equivalent to 83.3 percent of the negotiated value of foreign investments in Changchun City and 65 percent of that in Jilin Province in 1993. According to the contract, 10 percent of the complete cars and some parts and accessories will be exported after the corporation reaches its full production capacity. This will earn approximately \$150 million annually, equivalent to 95.5 percent of the value of exports from Changchun City and 9.4 percent of that from Jilin Province in 1993.

Third, the auto industry is one which plays a dominant role in the regional economy in northeast Asia. It will open a bright prospect for operation in developing the Tumen River delta. Among the various nations in northeast Asia, Japan is a major car-producing nation in the world, and Korea is also among the top ten. Both China and Russia are vast markets for cars. As far as industrial foundation, market potential, and geographic location are concerned, Jilin is better than Liaoning and Shandong in promoting world regional cooperation for the development of the auto industry in the course of opening up the Tumen River area.

Fourth, building a motorized society should be one of the targets in developing border and offshore provinces

and internationalized cities. With the vigorous development of such provinces and cities, more cars produced in Jilin will be traded and in circulation in the whole country.

II. Strategic Direction For Developing Auto Industry in Jilin Province

In view of the new opportunity for development, Jilin needs to work out a new development strategy for its auto industry, aim even higher at improving its world competitiveness, and continue to maintain its leading position in the country. To achieve all this, it is necessary, first of all, to pay full attention to the realm of production and manufacture complete cars, parts, and components on a large scale. Next, it is essential to change the concept of a planned economy of paying excessive attention to production, while ignoring circulation and consumption. In accordance with the requirements of market economy, we must strive to develop the automobile market system in Jilin Province and create a sufficient market force for the production of cars, parts, and components. Therefore, to develop the auto industry in Jilin Province, the Jilin Provincial and Changchun City governments should further establish the auto industry as the first leading pillar industry in the local economy and work out a macroeconomic strategy for carrying out production, manufacturing parts and components in a coordinated manner, promoting circulation, and encouraging spending on cars on a large scale. Only by so doing, will it be possible to tap the potential of the local economy and society in support of the auto industry in the province so that the industry will in turn help the local economy and society flourish. **1. Support the First Motor Vehicle Group to become China's pillar industry, form a competitive huge base area with annual production capacity of one million cars**

Large-scale production is the prerequisite of the four major strategic directions. After its development for more than one hundred years, the world auto industry has already formed a pattern of large-scale production with multinational corporations as its backbone. The research of a related institution shows that only when a general car assembly plant is capable of producing 400,000 to 600,000 units, a large car manufacturing conglomerate has the composite production capacity of more than 1 million units, and a nation is able to produce more than 2 million units, can they compete with others in the world. The major problems in China's auto industry are "decentralization, disorder, and low quality," with decentralization as the main problem. The nation's production capacity of one million odd cars is engendered by over 100 car manufacturing plants. The total annual production output of the largest car manufacturing plant—the First Motor Vehicle Plant and the Second Motor Vehicle Plant—is less than 200,000 units. Therefore, to build a pillar industry, we must no longer follow the beaten track of "decentralization, disorder, and low quality." We should strive to support several conglomerates and turn them into pillar enterprises of

the industry. This has already become the common understanding of the Chinese government and the auto industry.

With the assistance of the related ministries and commissions, the First Motor Vehicle Group is working out plans to build a huge production base area with an annual production capacity of 1 million units. It will use approximately 10 years to turn itself into a national car-manufacturing pillar industry with an annual production capacity of 1 million units, equivalent to an annual sales volume of \$10 billion—an industry which is able to independently develop new products, set up sedan manufacturing plants for large-scale operation, and compete with others in the world.

To build a large production base area capable of manufacturing 1 million car each year is an unprecedentedly immense project in developing China's auto industry and Jilin's economic construction. In addition to the support from the central government and efforts made by the First Motor Vehicle Group itself, we still need the support and services provided by the various localities where the project is being carried out in terms of land, water, electric power, gas, transportation, labor, raw and processed materials, financing, and telecommunication and posts. Based on the principle of economy and efficiency, it is not necessary to build all the production facilities within Jilin for the manufacture of 1 million cars. All existing facilities in the province are good enough to produce about 600,000 cars. To mobilize all the forces in the province and do all in our power to build the large production base area should be regarded as the strategic task of top priority for the development of the auto industry in Jilin Province. **2. Rely on the First Motor Vehicle Group in forming a large network of related industries to manufacture parts and components to gear to needs at home and abroad**

A modern automobile industry is built on the foundation of large-scale socialized production. The main sector of a car manufacturing plant is the general assembly factory which demands 40 percent of the total production cost of a complete car, while the remaining 60 percent goes to various sectors of society for the parts and components they provide. In a broad sense, they involve related upstream industries which not only produce parts, components, and accessories, but also manufacture production equipment and facilities, carry out construction and installations, and supply raw and processed materials. They also involve related downstream industries which use the chassis produced by the general assembly factory and turn them into remodelled and special-purpose cars. Therefore, a large system of supportive facilities is the foundation of mass production and the material base for the development of the auto industry. One of the major reasons for the Shanghai auto industry to become Shanghai's first pillar industry and rank top in terms of output value in China is the fact that it has a large integrated system of supportive industries to turn out parts and components for the manufacture of Santana sedans.

Another major car manufacturing province in China—Hubei—also has fairly good supportive facilities to produce parts and components for the manufacture of cars.

Relatively speaking, the auto industry in Jilin has a major shortcoming of being strong in assembling complete cars but weak in developing supportive facilities. In 1991, the output value of complete cars produced in Jilin accounted for 13.4 percent of that in the whole country, while that of parts and components accounted for only 3.4 percent and ranked seventh in the nation. In 1990, Jilin's investment in the manufacture of complete cars totaled 360 million yuan, higher than the 280 million yuan in Hubei and 260 million yuan in Shanghai, but its investment in the manufacture of parts and components totaled 60 million yuan, much lower than the 270 million yuan in Shanghai and the 130 million yuan in Hubei. In the same year, the ratio between investment in the manufacture of complete cars and of parts and components in Shanghai was 1:1.05, 2.2:1 that in Hubei, and only 5.8:1 in Jilin. During the period when the Shanghai-Volkswagen Corporation started to manufacture the parts and components it needed, 62 percent were manufactured in the Shanghai area. In 1988, Chinese-made parts used in the Shanghai area accounted for 55.72 percent of the home-made parts used in the whole country. In 1993, the First Motor Vehicle-Volkswagen Corporation, whose situation was similar to that of the Shanghai-Volkswagen Corporation in the use of Chinese-made parts and components in 1988, had only 44 parts-producing factories in Jilin (including 26 factories in Changchun), accounting for 28 percent of the total number of parts-producing factories. Parts-producing factories in the province cumulatively manufactured only 3.22 percent of the Chinese-made parts, accounting for only 16 percent of the 20.1 percent cumulative rate in the use of home products in that year. Under this situation, the First Motor Vehicle Group, which includes the First Motor Vehicle-Volkswagen Corporation, cannot but seek far and wide for what should lie close at hand and get most of the parts and components needed in other localities of the country. From the material distribution point of view, this practice is uneconomical. Therefore, to build a base area of mass production with a production capacity of 1 million cars, we must form a large system of related industries and supportive facilities in the manufacture of parts and components in Jilin. This should be the central task of the local authorities in support of the First Motor Vehicle Group and meets the requirement of development of the local economy. It should become the focal point for local governments in developing the auto industry in the province.

There are four major special features in building supportive facilities on a large scale. In the ratio of investments, the investment in manufacture of parts and components should be close to the total investment on the manufacture of complete cars. Successes have been reported at home and abroad in this connection. With regard to the output value ratio, we should raise the output value of parts and components to more than 30

percent of that of complete cars in the province and the ratio of remodelled cars and special-purpose cars from 6.2 percent of the total output value of the auto industry at present to 20 percent (the highest level reached by Sichuan Province in 1991) by approximately 2000. In building supportive facilities, we must attach importance to the manufacture of parts and components, while vigorously manufacturing more equipment for automobile production, increasing fuel supply and highway facilities, turning out more raw and processed materials, and producing more remodelled and special-purpose cars. In building supportive facilities, we must also give full support to the First Motor Vehicle Group, gear to needs at home and abroad, increase the varieties of parts and components and production scale, and develop and produce more serialized products.

To build a large supportive system, we must uphold the following principles. 1) We must tally with the industrial policy of the state, persistently develop the "China brand," and avoid starting unreasonable and redundant construction projects. 2) We must aim high, carry out production on a large scale, turn more specialized products, insure high quality, and lower production costs. Only by so doing, will it be possible for us to stand firmly and grow steadily in face of the sharp competition at home and abroad. 3) We must mobilize the four different groups to work hard in a coordinated way. One group is the First Motor Vehicle Group. Right now, it is capable of producing high-quality parts and components, designing and manufacturing technological equipment, and turning out remodelled and special-purpose motor vehicles. Another group contains local enterprises. They should form the main force of the four groups under the leadership and guidance of the local government. Still another group contains enterprises directly under the administration of the central government in Jilin. The production quality of these enterprises is good. They will be able to bring their role into full play in whole country if they have some good projects to develop. The last group contains investors outside Jilin and abroad. We must keep all our doors open to energetically attract investors from all other cities, provinces, and foreign countries. 4) We must become market-oriented, strengthen economic ties with others, engage in fair competition with those inside and outside Jilin, and guard against local protectionism. 5) We must make full use of the advantage of the schools of higher learning, scientific research institutes, and large enterprises in the province, pay full attention to developing auto parts and components, and strive to promote progress in the field of science and technology. **3. Actively develop the auto industry, form a well-developed mass circulation system**

Commodity circulation links supply with demand and connects macroeconomic control with microeconomic flexibility. It is an important realm to help develop a market economy. A well-developed auto industry must be accompanied by a well-developed circulation market. Only with a well-developed circulation market, can the auto industry consolidate and expand its market and

continuously raise its efficiency and enhance its competitiveness in accordance with the market situation. Meanwhile, a well-developed auto industrial area may further promote the local economy by producing more cars and vigorously developing the circulation market for the auto and other related industries. Therefore, to build a mass auto industry circulation system compatible with a huge base area with a production capacity of 1 million cars should be Jilin's new strategic direction aimed at using its auto industry to help develop the local economy.

In recent years, various localities have quickened their pace in developing auto markets. The competition has become more and more intense. In 1993, the Ministry of Internal Trade and the Shanghai Municipal Government jointly established an automobile trading market. The China Automobile Trading Corporation, East China Branch, began to build a multifunctional "East China Automobile City" in the Shanghai Pudong New Area. The Shanghai Automobile Industrial Parts Center was established in Shanghai and went into operation. In the same year, the head office of the China Automobile Industrial Corporation and the Tianjin Municipal Government jointly set up a trading center for automobile industrial products in Tianjin. As early as 1992, Changchun City had decided to build the Changchun Automobile Trading City with a floor space of 200,000 square meters where trading of auto products could be carried out, automobiles exhibited, technical consultations offered, personnel trained, information exchanged, and various types of services rendered. The city will begin to take shape in two years and be completed in five years. It will become the largest automobile trading center in the country, laying a basic foundation for the circulation of auto products produced in Jilin Province. However, great efforts are needed to develop software in this connection. We must quicken our pace in building the new circulation system and carrying out overall planning as soon as possible.

We may start building the mass circulation system for auto products produced in Jilin Province as follows:

First, in the Changchun Automobile Trading City, we should set up a state-level automobile trading center which contains a car trade center, an auto parts and components center, and an automobile producer goods trade center (equipment, tools and raw materials included). We will adopt a membership system and a nonmembership system to handle transactions in buying and selling automobiles and auto parts for spot and forward delivery. With modern facilities, standardized management, and excellent service, we will be able to provide domestic and foreign customers with a place where automobiles of various types and related products can be traded openly and fairly, and to develop a large top-rated and multifunctional automobile market.

Second, we should learn from the achievements made by multinational corporations abroad and gradually form a nationwide independent marketing network for products

manufactured by the First Motor Vehicle Plant and the First Motor Vehicle-Volkswagen Corporation, and introduce a marketing system which combines sales and an after-sales service and parts supply. We should also maintain an exclusive distribution system for such products to insure market stability in sales and vigorously create a fine sales environment for marketing the 1 million automobiles and related products on domestic and foreign markets.

Third, we should energetically hold various types of car exhibitions, order-placing meetings, and technology-exchanging symposiums for promoting circulation of automobiles and other related products. In recent years, international car exhibitions were held alternately in Beijing and Shanghai. Auto parts and equipment exhibitions were also held every year in Beijing and other localities, while mobile exhibitions of cars of world famous brands were held in more than a dozen cities throughout the country. International car fairs were also held in Amoy, Shenzhen, and other localities where the auto industry was not well-developed. Meanwhile, nationwide and regional order-placing meetings and trade talks were held in various localities. Changchun is a well-known automobile city in the country. We should also carry out activities in this connection. These activities will enhance local awareness of cars, make the cities where such activities are held well known at home and abroad, and help improve production quality and build circulation markets for automobile products. Jilin Province, Changchun City, and the First Motor Vehicle Group should closely cooperate with one another to sponsor a number of commercial and trading activities. They may also sponsor activities of the "Changchun Automobile Cultural Festival" like a "film festival." While maintaining our advantages in production, we should create a new image of Changchun as an "automobile city" by continually improving circulation of automobile products and encouraging spending on cars.

4. Use consumption to promote production, circulation; spending more on cars in China

Spending more on cars produces a motive power for the development of the auto industry. To encourage people to spend more on cars may not only help open up the market for the auto industry, but also serve to reduce money in circulation, and guide people to spend their money properly, raise their work efficiency, and improve their quality of life. It is a necessary requirement in turning the auto industry into a pillar industry of the national economy.

Working hard to play a dominant role in carrying out automobile production, building supportive facilities, and improving circulation on a large scale, both Jilin Province and Changchun City should utilize their existing favorable conditions to lead the country in forming a pattern to encourage more spending on cars by building more highways, parking lots, gasoline stations, car repair shops, and other related facilities.

In general, Jilin Province lags behind other large cities in the country in spending on cars. It has a relative large potential. In 1992, the number of private cars in Jilin totaled 187,878, ranking 16th in the country. In highway transportation, the volume of highway freight in Jilin in 1992 ranked 19th in the country, only 2.5 times of the volume of railway freight in the province, greatly lower than Shanghai's 19.1 times, Guangdong's 15.5 times, Hubei's 9.7 times and the national average of 5.5 times. In urban public transportation and taxicab service, the total number of public-use cars in Changchun in 1992 ranked 15th in the country, and that of taxi-cabs ranked 17th. The number of taxi-cabs per thousand nonfarming persons was 1.01, ranking 25th in the country. While Jilin lagged behind other localities in the country in the aforementioned norms, the number of privately owned passenger-carrying cars in the province totaled 19,631, ranking 7th in the country, higher than Hubei's 20th rank and Shanghai's 27th rank. This shows the gratifying situation in the development of private-use cars in Jilin Province. However, generally speaking, Jilin fails to lead other cities in the country in the aforementioned norms. It also lags behind the neighboring provinces of Liaoning and Heilongjiang. It fails to live up to its name as a major car-producing province. As far as the current national standards of consumption are concerned, Jilin should encourage people in the province to buy more cars.

Looking at the trend of development, we believe that the focus of car owners is on sedans. According to foreign experience, sedans will become more and more popular through the stages of public use, business use (for tourism, rental and other services), and family use. In the current stage, China gives priority to public use of sedans, with the use of sedans for business use rapidly growing. Families will soon buy sedans for their own use. Therefore, we must continuously encourage spending on sedans for public use, pay attention to developing tourism, car rental and other business uses, and make preparations for the entry of sedans into families. We must encourage production and business units to buy sedans for public use and abolish restrictions of a policy nature. We must energetically develop tourism and the car rental business, raise the per-capita rate of car ownership by increasing general quantity, implement preferential policies and strengthening administrative measures, and improve services and make reasonable charges so that rental cars will be commonly utilized by ordinary people as a means of transportation. Rental cars in Changchun are not of high quality. Their condition is poor. Most of them are run by small businesses. Their services are relatively poor, and it is not easy to keep them under control. This situation should be changed. Changchun City may use its sponsorship of the international film festival as a good opportunity to organize and establish a regular large-sized rental car shareholding company with domestically produced Hongqi, Audi, and Jetta cars as the main fleet to enlarge the market and do more car rental business for tourists.

As for encouraging more families to buy sedans, we must realize the following facts: The proportion of those people allowed to become well-to-do first is relatively small, but their absolute number is considerable in the populous province of Jilin. As long as our policy is suitable, we may witness fairly rapid development. Cars will soon become a new target for ordinary families. This period is not too far away. A study conducted by the Technological and Economic Research Institute of the State Planning Commission showed that a family with a per-capita income of more than 4,000 yuan can basically afford to buy a car. The per-capita income in Changchun in 1992 was 1,613 yuan, and the planned per-capita income in Changchun in 1994 reached 2,050 yuan. With an estimated annual growth rate of 12 percent, families in Changchun would be able to afford to buy cars by 2000. Another pressing task is to do a good job in carrying out production and marketing work, implementing policy, strengthening administration, and building more highways and parking lots for the next six years. After the overall implementation of the Tumen River International Development Project, we may encourage people to buy cars with international standards in the development zone and turn this zone into a model experimental district for a motorized society in China.

III. Bring Initiative of Several Sectors Into Play

Close coordination among the related departments of the central government, the local governments of Jilin Province and Changchun City, the First Motor Vehicle Group and other enterprises in the province is needed in developing the Jilin auto industry. The Jilin auto industrial system differs from that of Shanghai in bringing about coordination between the manufacture of complete cars and supportive facilities. Local enterprises form the mainstay of the Shanghai auto industry. The Shanghai Auto Industrial Corporation is affiliated with the Shanghai Municipal Government, which exercises overall leadership of the auto industry in the municipality. It is a well-coordinated administrative system from top to bottom. This system enjoys the dual advantage of government leadership and enterprise management, and brings into full play the good qualities of both planned and market economies during the transitional period from a planned to a market economy. This system is able to make overall arrangements in achieving coordination between the complete car assembling plant and the parts manufacturing industry and to take both upstream and downstream industries into consideration.

The First Motor Vehicle Group is a large-sized independent enterprise group directly under the state plan and without any direct affiliation with the provincial and city governments. Meanwhile, the mainstay of the Jilin auto industry is the First Motor Vehicle Group. Therefore, in developing supportive facilities, promoting circulation, and encouraging consumption on a large scale, we must rely on the mass production base area of the First Motor Vehicle Group. Under the existing system, it is unrealistic to form a well-coordinated leadership system like

that in Shanghai. We must explore an effective form of coordination among the central and local governments, the First Motor Vehicle Group, and the various enterprises in Jilin Province, and bring their initiative into full play. This constitutes the key link and the most pressing task in achieving the strategic goals of the Jilin auto industry.

1. The central authorities exercise control and develop policy in favor of the Jilin auto industry. The Jilin auto industry is an important component part of the nation's pillar industry. The central government must provide strong policy guidance and strengthen its macroeconomic controls to support the First Motor Vehicle Group to build itself into a conglomerate with a production capacity of 1 million cars and help Jilin achieve regional supremacy in the auto industry. It must adopt a policy in favor of the First Motor Vehicle Group and the Jilin auto industry to help them delegate decision-making power to lower-level units, make investments, obtain policy-related loans, carry out the share-holding system on an experimental basis, issue bonds, and so on. It must also encourage and guide domestic investors to energetically pour funds into the Jilin auto industry. Recently the leadership of the State Council had repeatedly pointed out that it is necessary to strengthen the existing base area for production of sedans as soon as possible. The state can only protect such base area for two to three years. During this period, the state will not approve the establishment of any new factory for the production of complete sedans. Nor will it follow the beaten track of assembling imported parts and components into cars. These policy decisions constitute protection of and form a pressure on the First Motor Vehicle Group and Jilin which are developing their projects for the production of sedans.

2. Using enterprises as a foundation, encourage them to cooperate and compete with one another. The First Motor Vehicle Group plays a main role in the Jilin auto industry. In accordance with the related rules and regulations of the state to revitalize enterprises, we should support policy decisions made by the group on planning, making investment, selecting models, and choosing the locations for related industries. As for projects to coordinate with parts and equipment industries, we should mainly allow the First Motor Vehicle Group to make its own decisions in accordance with economic principles. The group should strive to tap the industrial potential of Jilin and Changchun, endeavor to do still better, select the nearest industries to acquire its parts and components, and actively help develop the local economy. Meanwhile, it is necessary to encourage local enterprises to compete with those in other places for better quality and lower costs.

3. Develop supportive industries and the market and guide consumption, while improving the environment. As far as Jilin Province is concerned, we have a great deal of work to do in further implementing a new strategy for development of the Jilin auto industry. We must improve the

environment of the First Motor Vehicle Group in production and construction; organize parts and component manufacturing industries in support of the group; help supportive enterprises solve their problems on recruiting qualified personnel, financing, and overcoming technical difficulties; and coordinate with local scientific research and educational institutions to serve the auto industry. We must quicken the pace of strengthening our leadership organizationally.

4. Form a high-level coordination setup. Under the situation where an integrated leadership is inappropriate, the provincial and city governments and the First Motor Vehicle Group must jointly form an authoritative high-level coordination setup to exchange information, work out policy decisions, and coordinate their actions to further implement a new strategy for development of the Jilin auto industry. To establish a stable, realistic and authoritative coordination setup is one of the requirements in insuring the coordinated development of the Jilin auto industry.

5. Promote business associations among enterprises. Maintaining close economic ties and steady cooperation is an achievement made by foreign auto industries. It is also an effective way to enhance unity within the auto industry in Jilin. With the support of the local government, the First Motor Vehicle Group has joined forces with the Changchun Factory No 4 in Jilin to start producing light-duty motor vehicles. This is a good example of promoting business associations among enterprises. The healthy development of the shareholding system has created a better organizational form of business association. The provincial and city governments and the First Motor Vehicle Group may exploit the advantages of the group in technology and human resources to promote business associations with other enterprises in manufacturing remodelled and special-purpose cars, develop the automobile market, and expand tourism and the rental car business.

Right now, the Dongfeng Motor Vehicle Corporation (the Second Motor Vehicle Corporation) has already put forward the strategic target of "basing itself on Hubei, orientating its work to the needs of the whole country, moving towards the world and spending 10-15 years to build itself into a motor vehicle conglomerate with a production capacity of 1 million cars." Hubei Province has established a "leading group for revitalizing Hubei's auto industry" with the provincial governor as the head of the group. Considering the auto industry as the largest pillar industry in the province, Hubei has given full support to the Dongfeng Motor Vehicle Corporation in developing its production capacity of 1 million cars. It calls for efforts to strengthen overall planning and remove barriers between departments and regions. It plans to use the 500 km long motor vehicle corridor which connects Shiyan, Yuanyang, Xiaogan, Wuhan, and other cities to develop the Hubei auto industry. It has also established a Hubei special automobile development fund. Each year, it plans to spend 1 billion yuan

to develop the auto parts industry. It implements a preferential policy to help develop auto industrial projects with foreign investment and requests the state's approval for the establishment of the Shiyan Auto Industrial Development Zone. It has provided the Dongfeng Group and the parts-manufacturing industry with land and helped the group in establishing lateral ties. Hubei has already taken action. We should strive to continuously move ahead of others to revitalize the national auto industry, when we try to enhance people's awareness; carry out research, discussion, and planning; and take concrete action.

Northwest Region

Qinghai Sees 'Importance' of Teaching Minorities

OW2103061295 Beijing XINHUA in English 0150
GMT 21 Mar 95

[FBIS Transcribed Text] Xining, March 21 (XINHUA)—Northwest China's Qinghai Province, home to a dozen ethnic minorities, attaches great importance to training competent teachers for the indigenous minority communities.

In a bid to supply more teachers who can speak both Chinese and a language of the native minorities, the provincial Education Bureau has set up the Qinghai Minorities Teacher's School, with several classes designed for students of native nationalities.

Thus far, Qinghai has trained more than 500 bilingual teachers of local nationalities for 24 ethnic middle schools, six normal schools, as well as for the 63 colleges for minorities throughout the country.

There are now a number of Tibetan teachers who can use Chinese language texts, and can teach, as well as edit, Tibetan language materials for the sciences, such as physics, chemistry, mechanics, and electronics.

The basic level of these teachers has been raised since the introduction of a course in special education training and a plan of preferential treatment was provided them.

Presidium Namelist of Xinjiang Congress Session

OW2103150295 Urumqi XINJIANG RIBAO in Chinese
18 Feb 95 p 1

[Namelist of the presidium members and secretary general of the Third Session of the Eighth Xinjiang Autonomous Regional People's Congress; adopted by the preparatory meeting of the Third Session of the Eighth Autonomous Regional People's Congress on 17 February 1995; in Uyghur alphabetical order]

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Media Cover Nongovernmental Talks Proposals

Wang Urges Holding Talks

OW2303110495 Beijing Central People's Radio in Mandarin to Taiwan 2200 GMT 20 Mar 95

[Report by staff reporter Du Changhua on "views expressed by Wang Daohan, president of the Association for Relations Across the Taiwan Strait, on the proposed second round of Wang-Gu Talks"—from the "News and Current Events" program]

[FBIS Translated Excerpt] Association for Relations Across the Taiwan Strait [ARATS] President Wang Daohan is attending a meeting of the ARATS Board of Directors in Beijing. On 20 March, he expressed his views on the proposed second rounds of Wang-Gu [Wang Daohan-Ku Chen-fu] talks. He said that he expects to meet with Mr. Gu Zhenfu in Beijing at an early date.

[Begin recording] Mr. Gu Zhenfu recently stated that he was prepared to come to Beijing when invited. We welcome this statement. We consistently, sincerely, and enthusiastically hope that the second round of Wang-Gu talks will be held in Beijing at an early date. [end recording]

ARATS President Wang Daohan highly appraised the roles played by the meetings of the ARATS and the Straits Exchange Foundation [SEF] in promoting across-the-strait relations.

[Begin recording] In recent years, ARATS and SEF, two authorized nongovernmental organizations, have held more and more talks on specific issues and on the development of exchanges and cooperation. Such multi-topic, multilevel, multiround contacts are one of the main features of the interaction between the two sides. Practice has proved that the contacts and cooperation between ARATS and SEF, which have been brought about according to the agreement in the Wang-Gu talks, are now an important, effective form of the development of relations between the two sides. ARATS and SEF holding consultations and dialogue on an equal footing is an important way for the two sides to deepen their mutual understanding and trust. Although such consultations cannot remove all the disputes between the two sides, the consultations themselves reflect mutual respect, [words indistinct], and a spirit of goodwill, so these consultations undoubtedly have a tremendous influence on, and a great significance for, favorable relations between the two sides. This is what people on both sides of the strait have witnessed. Based on such understanding, we have on several occasions proposed that the second round of Wang-Gu talks be held as early as possible. An agenda may be set according to which group discussions can be held on different topics; there also may be no set agenda, and we can have a broad exchange of views on questions of concern to both sides. In the meantime, we have also on several occasions

indicated that, while making concerted efforts by ARATS and SEF to hold talks on specific issues authorized by relevant departments, we hope the top leaders of the two associations will have more contacts and more opportunities to hold a dialogue, further enhance their mutual understanding, acquire common understanding, expand cooperation, and foster mutual trust in order to relax [huan he], stabilize, and continuously improve and develop the relations between the two sides. [end recording]

Wang Daohan also said that ARATS would study and improve its work. On a recent statement by Mr. Lian Zhan [Lien Chan] that across-the-strait relations have entered the period of consultation, ARATS President Wang Daohan expressed his appreciation of the statement.

[Begin recording] The most important aspect of this meeting [referring to the fourth meeting of the first ARATS Board of Directors] is to implement the eight-point proposal put forward by President Jiang Zemin. How should we implement it? We should further cooperate with the Taiwan side and Taiwan compatriots, hold consultations with them, and make progress in developing cross-strait relations. This is the spirit and main content of today's meeting. Participant in the meeting have put forward many good suggestions and views on specific issues. We are going to study these suggestions and views. Decisions of this meeting are aimed at making it possible for all Taiwan affairs departments to implement President Jiang's eight-point proposal. Moreover, we should discuss some issues in cross-strait relations with compatriots, various circles, and various parties in Taiwan. In this regard, we are also waiting for a response from the Taiwan authorities to President Jiang's eight-point proposal. By reading some Taiwan-published newspapers, we have understood Messrs. Lian Zhan and Xiao Wanchang's [Hsiao Wanchang] views in this respect. We are waiting for opinions from the National Reunification Committee. We would also like to know how Mr. Li Denghui [Li Teng-hui] expresses his understanding. In such circumstances, we are particularly prepared to usher in a new stage for the development of cross-strait relations, a stage at which we highly appreciate what Mr. Lian Zhan termed the era of consultation. [passage omitted] [end recording]

Mainland Calls For Early Meeting

HK2203094295 Beijing CHINA DAILY in English 21 Mar 95 p 1

[By Xiao Sun: "Mainland Seeks Early Wang-Koo Meeting]

[FBIS Transcribed Text] The Wang-Koo meeting—the nongovernmental summit across the Taiwan Strait—should be held as early as possible, a chief mainland negotiator said yesterday in Beijing.

Through the meeting, both sides can set the agenda for future talks, said Wang Daohan, Chairman of the Beijing-based Association for Relations Across the Taiwan Straits (Arats).

He told the fourth plenary session of the Arats' First Council that he hoped Arats and Taiwan's Straits Exchange Foundation (SEF) could have more high-level contacts.

Arats welcomes the recent remarks made by SEF Chairman Koo Chen-fu, saying he would come to Beijing to take part in the second Wang-Koo meeting.

Wang said that Arats will strengthen its links in Taiwan.

"We welcome them exchanging ideas on relations across the Taiwan Strait and the peaceful reunification of the motherland," Wang said.

Wang urged Taiwan authorities to expand the scale and level of economic and trade cooperation.

Zhang Jincheng, a former director in the Office of Taiwan Affairs under the State Council, was elected as the Arats' secretary general at yesterday's meeting.

Arats Vice Chairman Tang Shubei also delivered a work report to the meeting.

Answering questions from reporters, Wang said the setting up of Shanghai's shipping centre is an important part of Pudong's development and is not designed to supersede Taiwan's centre in Kaohsiung.

Defining the functions of the deputy-secretary-general-level meeting, the Tang-Chiao meeting and Wang-Koo meeting, Tang said that the deputy secretary generals of the two sides mainly involve discussing general affairs, while the Tang-Chiao meeting will settle those sticky problems which cannot be solved by deputy secretary generals.

The top-level Wang-Koo meeting should focus on holding discussions on policy-related issues.

Li-Jiang Meeting Not 'Counter' to Existing Policy
OW2303022695 Taipei CNA in English 0128 GMT 23 Mar 95

[By Benjamin Yeh]

[FBIS Transcribed Text] Taipei, March 22 (CNA)—Foreign Affairs Minister Frederick Chien said on Wednesday that the proposal that President Li Teng-hui meet with mainland Chinese President Jiang Zemin does not run counter to the government's existing policy.

But Chien, who spoke at a question-and-answer session of the Legislative Yuan, emphasized, "the best venue for the meeting [words indistinct] to be at international forums like the Asia-Pacific Economic Cooperation Forum."

Li said for the first time last year that he was willing to meet Jiang on "international occasions." During his recent peace overture to Taiwan, Jiang also called for exchanges of visits by leaders from both sides—on condition, however, that the meeting be held in either Taiwan or Mainland China.

Yet Chien stressed that the government has never regarded Mainland China as a "foreign country," saying the ties between the two sides are not the same as those between Taiwan and any other country.

The fact China is split and separately ruled by two governments should be admitted and problems generating from the ties should be handled in a more pragmatic manner, he said. For now, the development of the increasing private exchanges between the two sides is governed by the statutes on relations between people on Taiwan and the mainland. Chien also said that he saw no sign the two sides will be integrated soon.

Envoy Partying With Official To Face Reprimand
OW2303024795 Taipei CNA in English 0155 GMT 23 Mar 95

[By Benjamin Yeh]

[FBIS Transcribed Text] Taipei, March 22 (CNA)—Foreign Affairs Minister Chien Fu said on Wednesday that he will "handle" the case in which Taiwan's representative to Hong Kong allegedly sang along with an official from Mainland China's XINHUA NEWS AGENCY at a party celebrating the mid-autumn festival in the British colony last year.

Chien made the remark in response to an inquiry by Democratic Progressive Party legislator Hsu Tien-tsai, who questioned the appropriateness of John C.I. Ni's being seen hugging and singing at the party with Wang Zhenyu, XINHUA's Taiwan Affairs Department director. XINHUA is Beijing's official mouthpiece and de facto "embassy" in Hong Kong.

Chien termed Ni's behavior "inept" and promised that overseas personnel would now strictly observe Foreign

Ministry rules concerning ways to deal with communist Chinese personnel. The rules require government officials to "try their best" to report to superiors about any contacts with mainland officials. Ni did not report his party with Wang to the ministry, Leng said. Ni currently serves as the representative of the Chung Hwa Travel Service in Hong Kong.

Vice Premier Vows To Curb Rising Debt

OW2303122395 Taipei CNA in English 0920 GMT 23 Mar 95

[By Lilian Wu]

[FBIS Transcribed Text] Taipei, March 23 (CNA)—Vice premier Hsu Li-teh Thursday [23 March] vowed to curb the ballooning government debt, saying that expanding debt adversely affects social and economic development.

Hsu made the comment during a report to the Kuomintang caucus in the Legislative Yuan.

While calling for moves to cut the debt, however, he also urged support for a bid to raise the ceiling of government bond floatations to 40 percent of the gross national product (GNP).

Hsu said that nations such as the United States and Japan have government debt ceilings which far exceed that of Taiwan. As long as outstanding government debt does not exceed 40 percent of GNP, the government's financial burden will not be too heavy, he added.

According to a draft budget for fiscal 1996, which begins on July 1, the government slated NT [new Taiwan] \$152.7 billion (US\$5.918 billion) to repay the government debt, accounting for 13.4 percent of total expenditures, or up 64 percent from the previous year.

Hsu said that government payments on the debt accounted for 9 percent of the 1995 budget. As expenditures continue, he said, revenue will not be able to keep up. As a result, the government must raise its debt ceiling, he reasoned.

China Airlines, Eva Airways Offer New Routes

OW2303024995 Taipei CNA in English 0205 GMT 23 Mar 95

[By Lilian Wu]

[FBIS Transcribed Text] Taipei, March 22 (CNA)—China Airlines has been awarded the right to fly to Italy and Switzerland while Eva Airways can begin service to Belgium and the Netherlands, the Ministry of Transportation and Communications said Wednesday.

Vice Minister of Transportation and Communications Mao Chih-kuo led a delegation to Italy while Tsai Ching-yen, director-general of the Civil Aeronautics Administration, went to the Netherlands, Belgium and Switzerland in January to negotiate the opening of flights to those nations.

China Airlines already flies to Germany, the Netherlands and Luxembourg in Europe, while Eva offers service to France, Britain, and Austria. Both CAL and Eva indicated that they will begin flying the new routes in the second half of the year. A subsidiary of Swiss Air will fly the Switzerland-Bangkok-Taipei route, sources said.

Tsai, in explaining the awarding of flight routes to the two airlines, said Eva airways made it clear it did not want to operate a Switzerland route, given that it already flies to the three other European countries, and that the Italy route was awarded to CAL to balance the flight route distribution.

In addition, because CAL already operates cargo planes to Luxembourg and passenger planes to the Netherlands, which neighbor Belgium, the Belgium route was given to Eva. Eva airways will now use Brussels as its European cargo transport base, where it can make the best use of its new cargo planes, Eva Airways officials said. They lamented not getting the right to fly to Italy, however, saying they have made numerous efforts to pave the way for Taipei-Rome airlinks since 1989. Tsai noted that the Netherlands is the first nation in Europe that will allow more than one Taiwan airline to fly to its country.

Venture Launched With Malaysian Oil Company

OW2303022795 Taipei CNA in English 0146 GMT 23 Mar 95

[By Chen Yu-ping and Flor Wang]

[FBIS Transcribed Text] Kuala Lumpur, March 22 (CNA)—The Taipei-based Chinese Petroleum Corp. (CPC) and Malaysia Petronas Co. on Wednesday entered into a 20-year cooperative venture.

CPC Chairman Chang Tzu-yuan and his Malaysian counterpart, Tan Sri Azizan, inked the pact on behalf of their respective companies at Petronas's headquarters. Under the accord, Petronas will provide the CPC with 2.25 million metric tons of liquefied natural gas worth US\$10 million every year during the 20-year period, starting May 19, a CPC spokesman said.

The signing of the contract not only will help the CPC stabilize prices of liquefied natural gas on the Taiwan market, but also forms part of the CPC's environmental protection efforts as a constructive member in the global village, Chang said.

Azizan, for his part, said the forming of the venture is a realization of Petronas's market diversification efforts and would bring his company many benefits.

The CPC and Petronas began their first cooperative venture 15 years ago, Chang said. Taking advantage of their time in Kuala Lumpur, CPC officials will meet further this week with Petronas officials to discuss bilateral personnel, market-information, and technological exchanges, he added. Huang Hsin-pin, representative of

the Taipei Economic and Cultural Office in Kuala Lumpur, also witnessed the signing ceremony.

Taiwan's Agenda for Talks With EU Cited

OW2303111895 Taipei CNA in English 0937 GMT 23 Mar 95

[By Y.C. Tsai]

[FBIS Transcribed Text] Taipei, March 23 (CNA)—Delegates from Taiwan and the European Union (EU) will meet at the 11th bilateral economic and trade consultative meeting to be held in Taipei next Monday [27 March] and Tuesday, officials at the Board of Foreign Trade (BOFT) said Thursday.

BOFT director-general Lin Yi-fu will represent Taiwan at the meeting, while the EU delegation will be headed by Hugo Paemen, commissioner of foreign relations for the EU Executive Commission, the officials said.

One of the major topics to be discussed is the impact of higher tariffs imposed by Austria, Finland and Sweden on Taiwan goods since Jan. 1, when the three joined the EU.

The three new members, whose import duties averaged 3 percent before joining the EU, raised the tariffs on Taiwan-made products to 4.2 percent, the same level imposed by the original 12 EU members, they elaborated.

During the meeting, they said, Taiwan will also ask the EU to expand the ATA (Temporary Admission of Goods) Agreement to the three new members as well as to review and overhaul some anti-dumping measures imposed on Taiwan goods. The ATA Agreement allows merchandise, goods, special equipment or samples that are used for exhibition or conferences to be temporarily imported into a nation duty-free on the condition that the goods will be returned to the original export nations.

In addition, they added, Taiwan delegates will introduce to their EU counterparts the blueprint for Taiwan to become an Asia-Pacific operations center and Taiwan's various efforts toward intellectual property rights protection.

Taiwan will also seek "friendly nation" treatment from the EU in its bid to diversify imports of strategically sensitive products, including military and high-tech equipment and know-how, they stressed, explaining that only EU "friendly nations" are entitled to buy such strategic goods from EU member countries.

Other topics Taiwan hopes to discuss at the meeting include cooperation on environmental protection between the two sides, the establishment of an EU office in Taipei and Taiwan's entry into international organizations, they said.

In return, they pointed out, EU delegates are expected to focus discussion on Taiwan's regulations on foreign

bidding for government-procurement projects, trade ties between the two sides, the progress of Taiwan's bid to join the World Trade Organization (WTO)—the successor body of the General Agreement on Tariffs and Trade (GATT), affairs involving the Asia-Pacific Economic Cooperation (APEC) forum, Taiwan's planning for a national information infrastructure (NII) and opening of the telecommunications market.

Economics Minister Leads Delegation to Nicaragua

OW2303025395 Taipei CNA in English 0210 GMT 23 Mar 95

[By Huang Kuang-chun and Bear Lee]

[FBIS Transcribed Text] Managua, March 22 (CNA)—A 50-member Republic of China [ROC] delegation led by Economic Affairs Minister P.K. Chiang arrived here Tuesday night from Panama for the first ROC-Nicaragua economic conference.

Wednesday's meeting will be split into two separate forums, one attended by government officials from the two sides, and the other attended by business leaders. Topics to be discussed at the government officials' meeting will include the ROC's policies and experience in developing industries and small and medium-sized enterprises, encouraging investments, and promoting foreign trade.

At the civilians' meeting, delegates from the Chinese National Association of Industry and Commerce and their Nicaraguan counterparts will touch on such issues as Nicaragua's economic development and its investment climate, the situation of ROC-invested businesses in Nicaragua, and how ROC businesses can best go about exploring investment opportunities in Nicaragua.

Chiang, in addition to addressing the opening of the conference and a small and medium-sized business workshop sponsored by the ROC's International Economic Cooperation and Development Fund, will also sign with his Nicaraguan counterpart, Pablo Pereira, an agreement on cooperation between small and medium-size enterprises of the two nations. He will also call on Nicaraguan President Violeta Chamorro before proceeding to Costa Rica for a visit.

Premier Lien Chan Meets Palau President

OW2303024695 Taipei CNA in English 0159 GMT 23 Mar 95

[By Flor Wang]

[FBIS Transcribed Text] Taipei, March 22 (CNA)—Premier Lien Chan, in a meeting with visiting Palau President Kunio Nakamura on Wednesday, expressed

the hope that Palau would support the Republic of China [ROC]'s bid to re-join the United Nations.

Lien told Nakamura that the existence of the ROC should not be ignored in the international community just because of pressure from Beijing, and added that the voice of Taiwan's 21 million population should be heard at the international organization. He said Taiwan, as an economic power that has seen remarkable achievements in democratization and social development, should be rightfully represented internationally.

Nakamura, who first visited Taiwan six years ago, hailed the economic and democratic progress the ROC has achieved and promised to back the ROC's efforts to re-enter the UN. He also called on Taiwan industries to invest in Palau, saying [words indistinct] much impressed by Taiwan's own industrial development. Nakamura arrived in Taipei on Tuesday for a three-day visit.

Foreign Investment Welcomed in Shopping Malls

OW2303130395 Taipei CNA in English 0928 GMT 23 Mar 95

[By Sofia Wu]

[FBIS Transcribed Text] Taipei, March 23 (CNA)—Foreign shopping mall developers, operators and consulting firms experienced in this field are welcome to invest in Taiwan's shopping mall industry, a senior official said Thursday [23 March].

Chen Ming-pang, director of the Economics Ministry's Commerce Department, said Taiwan entrepreneurs are expected to invest billions of dollars in shopping malls in the next few years.

In line with the government's 10-year plan to promote commerce internationalization, Chen said, foreign shopping mall developers and operators are welcome to form joint-venture partnerships with prospective local shopping mall investors.

As Taiwan does not have much experience in shopping mall development, Chen said foreign shopping mall consulting firms are also welcome to cooperate with local investors to help enhance their investment return.

The Commerce Department is planning to sponsor international seminars on shopping mall development and management as well as publish booklets introducing management know-how, related regulations and a list of major foreign shopping mall operators, Chen said.

The department has so far received 28 applications for developing composite industry-commerce complexes and 25 of them include projects for establishing shopping malls in the complexes, Chen said.

According to the government's first-phase development plan, 800 hectares of land will be developed into industry-commerce complexes. Against this background,

Chen said, there is still ample room for shopping mall construction here.

Chen said large shopping malls are the wave of the future because people will have less time for shopping and they will prefer to shop at places which can provide wide variety of goods and services and offer a comfortable shopping ambiance.

Taiwan's Representative Office in Los Angeles reported earlier this month that a dozen American shopping mall operators have expressed interest in opening large shopping malls in Taiwan.

Chen said the government will help prospective local investors to forge cooperative ties with those American shopping mall operators.

Hong Kong

Further Reportage on Lu Ping's Recent Statements

Policies To Last 'At Least 50 Years'

OW2303070995 Beijing XINHUA in English 0641
GMT 23 Mar 95

[FBIS Transcribed Text] Washington, March 22 (XINHUA)—A senior Chinese official said here today that China's "one country, two systems" policy towards Hong Kong will not change for at least 50 years after it resumes sovereignty over the island in 1997.

The assurance was given by Mr. Lu Ping, director of the Chinese State Council's Hong Kong and Macao Affairs Office in his address at a Washington gathering sponsored by the Mansfield Center for Pacific Affairs in cooperation with the Progressive Policy Institute and the Heritage Foundation.

Under this policy, Lu said, the main body of China will continue to practice socialism while the existing capitalist system and way of life in Hong Kong shall remain unchanged after 1997.

This principle, he explained, is "the best and the only solution" for upholding and carrying out a 12-point policy towards Hong Kong, including the establishment of a Hong Kong Special Administrative Region enjoying a high degree of autonomy. He called this solution one acceptable to China as well as to Hong Kong and Britain.

Hong Kong has been playing very well its role as a window to the western world and a bridge for the western world to come to the China market, he noted, and China wants it to continue to do so by retaining its existing capitalistic characteristics. "We believe that a socialist Mainland and a capitalist Hong Kong can co-exist in harmony and that they can supplement each other instead of confronting each other," he said.

Lu also pointed out that the principle of "one country, two systems" is a big step in the course of reunification of China. "By offering Hong Kong as a blueprint to the settlement of the question of Macao and Taiwan, China demonstrates to the world that it can settle disputes in a peaceful way through mutual accommodation," he said.

He reiterated that the "one country, two systems" principle is by no means a transient or a temporary policy, nor is it a maneuver. "It is truly a long term policy of China," he stressed.

He then underlined the vital importance of having a stable China for further maintaining the prosperity and stability of Hong Kong. "Without this, the principle of 'one country, two systems' will be built on sand," he said.

China wants a smooth transition for Hong Kong in 1997, he said, and the goal of the Preliminary Working Committee, of which he is a deputy chairman, is to ensure

that when July 1st, 1997 comes, Hong Kong will continue to be "an economically prosperous, financially sound, and socially secure place," with everything in order and well-prepared.

Reveals Deng's Study

HK2303055795 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 1141 GMT 22 Mar 95

[FBIS Translated Text] Seattle 22 Mar (ZHONGGUO TONGXUN SHE)—During his current U.S. visit, Lu Ping revealed for the first time that it was not out of thin air when, in 1979, Deng Xiaoping set out the "one country, two systems" policy as a solution to the Hong Kong issue. On the contrary, Deng had sent men to Hong Kong to conduct on-the-spot surveys and studies, and had called a special body to meticulously study the factors for Hong Kong's success before making the decision to make Hong Kong a special administrative region [SAR] following its recovery, so as to maintain Hong Kong's capitalist system and way of life for a long period of time.

Lu Ping headed a delegation of the Preliminary Working Committee [PWC] for the Preparatory Committee for Hong Kong SAR in his capacity as director of the State Council Hong Kong and Macao Affairs Office, and PWC deputy director and concurrently secretary general. At a luncheon in Seattle on 21 March, he delivered a speech in English in which he said: In the spring 1979, Deng Xiaoping met then Hong Kong Governor Maclehoose, and told him that China would regard Hong Kong as a special district; that it would ensure that Hong Kong enjoyed a special status with the arrival of 1997, maintaining its capitalist system for a considerably long time; and that the socialist system in the hinterland would not be implemented in Hong Kong; hence, international investors need not worry. That statement by Deng Xiaoping served as a framework for the Chinese Government in formulating its Hong Kong policy. In 1984, when Deng Xiaoping met Howe, then British secretary of state for foreign affairs, he indicated that it would be impossible to maintain Hong Kong's stability and prosperity without guaranteeing Hong Kong the continued maintenance of its capitalist system. Deng Xiaoping made a point to Howe that he firmly believed that the policy of "one country, two systems" would be feasible.

Lu Ping said that Deng did not make those remarks casually, but did so only after voluminous survey and study. Deng Xiaoping not only had met visiting Hong Kong guests, but also had sent men to conduct on-the-spot surveys in Hong Kong. In addition, he called a special body (Lu Ping being one of its members) to meticulously study what were the factors for Hong Kong's success, what climate created this success, and what should be done to maintain continuous prosperity after 1997.

Lu Ping said the main points in the conclusion of the special body were: Hong Kong is richly endowed by

nature in its geographic position, and it has implemented a completely open free port policy, along with a sound legal environment.

Lu Ping stressed that China is full of confidence in Hong Kong's continuing to maintain its position as a center of world finance, trade, navigation, and tourism after 1997, and believes that Hong Kong will enjoy further development.

'Expects Better Business Environments'

OW2303012995 *Leijing XINHUA in English* 2318
GMT 22 Mar 95

[FBIS Transcribed Text] New York, March 22 (XINHUA)—A high-ranking Chinese official said on Wednesday that he expects better business environments in Hong Kong after 1997 under the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China.

Lu Ping, the most senior Chinese official involved in the 1997 takeover of Hong Kong to China, made the remarks in a keynote speech sponsored by Asia Society here in New York.

"I would like to emphasize that China has full confidence that after 1997, Hong Kong will not only maintain its prosperity and stability and its status as a financial, trading, shipping, aviation and tourist center, but that it will be developed further," Lu said in his speech.

Lu, Director of the Hong Kong and Macau Affairs Office of the State Council, is on a tour of the United States to introduce the Basic Law, which will go into effect on July 1, 1997. New York was his second stop after Seattle. He will also visit Washington D.C., Los Angeles, Chicago and Boston.

Lu said that under the Basic Law, Hong Kong will remain to be a port free from tariff barriers, foreign investments shall compete in an equal footing and shall be protected.

In addition, he said, Hong Kong shall continue to formulate its own monetary and financial policies and the Hong Kong dollar shall continue to circulate and remain freely convertible.

"Hong Kong can be an ideal springboard for multinational companies to enter into Chinese markets and an ideal window for Chinese companies and partners to find western markets," Lu Ping said in elaborating the important status of Hong Kong.

Hong Kong, one of the thriving international trade ports and international financial centers, has been under British rule for more than 150 years. China will resume its sovereignty over Hong Kong on July 1, 1997.

Opposition 'Will Not Be Tolerated'

HK2303045095 *Hong Kong EASTERN EXPRESS in English* 23 Mar 95 p 3

[By Paul Godfrey in New York]

[FBIS Transcribed Text] Organised political opposition to Chinese rule in the territory will not be tolerated after 1997, Lu Ping, the Director of the Hong Kong and Macao Affairs Office, warned yesterday. He made the statement after a lone Chinese dissident appeared amid a jingoistic, back-slapping jamboree in New York's Chinatown, which was staged for the visiting Lu and seven Hong Kong advisers to Beijing.

The rebuke came in response to questions from Ni Yuxian, the founder of the Party for Freedom and Democracy in China, who gate-crashed the event hosted by the Peaceful Reunification of China Association of New York at the popular Triple 8 Restaurant.

Ni asked for guarantees that his party, which has 300 members in Hong Kong, could exist after June 30, 1997. But Lu warned that article 23 of the Basic Law which he and the Preliminary Working Committee delegates are in the United States to promote, prohibits "subversion." "It is not allowed, it is not tolerated in China," he said.

Ni also asked if the privileges that some Chinese leaders extend to members of their families will spread to Hong Kong. Lu denied any knowledge of this practice. But he stressed that there would be a strong system of law in Hong Kong after 1997 with which everyone must comply. Ni, who wanted to ask more questions, was blocked by event organisers, who snatched away the microphone as a Chinese-American New York auxiliary policeman stood by.

Ni said afterwards that he had already known "that our party will not be allowed in Hong Kong after Beijing takes over, but I wanted to hear it from their mouths so that everyone else knows too."

Ni, a Shanghaiese activist, was imprisoned three times over 30 years for terms totalling seven years. He is the subject of a biography, "Chinese Odyssey," by the U.S. author Anne Houston.

Lu's comments on opponents of Communist rule followed a long explanation of the "one country, two systems" concept. But apart from that, he hardly got a look-in during the question-and-answer session. "Questioners," all selected from one table, mainly expressed joy at the long-awaited restoration of Chinese sovereignty.

Luis Ko Tung, a New York police officer, spent 10 minutes railing against the Democratic Party leader, Martin Lee, branding his visit to the U.S. last year as the action of a self-serving opportunist. "He came here for political gains, for his own needs," Ko said. "If he is fighting for the freedom of Hong Kong people after 1997, how come he didn't do anything for all the time the British have ruled Hong Kong from the other side of the world?" There were few dissenting voices.

A New York-based Chinese academic, Shung Jai, urged the special administrative region government to encourage Hong Kong people to trade more with Taiwan.

Early this morning the group was flying to Washington DC where it is expected to meet key foreign policy figures.

Coverage on Hong Kong's U.S. Commissioner

Denies Snubbing Lu

HK2303040595 Hong Kong SOUTH CHINA
MORNING POST in English 23 Mar 95 pp 1, 3

[By Simon Beck in New York and Hedley Thomas]

[FBIS Transcribed Text] Hong Kong Commissioner for the United States Barrie Wiggham admitted yesterday he had refused to attend a meeting with Chinese official Lu Ping during his U.S. visit because he had a dinner engagement with his wife. He did not accept an invitation to attend a dinner in Washington to be given today in honour of the Hong Kong and Macao Affairs Office director, explaining that he would instead go out with his wife and friends.

But Mr Wiggham denied suggestions circulating among the Chinese delegation that his absence represented a snub by the Hong Kong Government, saying: "I'm sorry it's worked out this way." He explained: "If I had been invited earlier it might have been a different story. But I received an invitation around a week before, by which time it was too late."

Asked what was more important than attending a dinner with Mr Lu, he said it was "a private matter," adding that he would go out with his "wife and friends."

A spokesman for Governor Chris Patten said last night: "From our point of view, Barrie Wiggham is the man on the spot and it's up to him to make these judgments. He did tell us when the invitation arrived that he had other commitments but that he would be sending along a representative. And we were happy to leave the decision to him. We have not objected to it."

The spokesman said there was no reason why the Hong Kong Government would avoid contact with Mr Lu. "Certainly, we have tried to arrange that contact between him and the governor for an enormously long period of time," he said. The official said that he did not believe Mr Wiggham's refusal to attend the reception would affect efforts by the Hong Kong Government to organise a meeting between Mr Lu and the Governor.

Mr Wiggham is sending his publicity officer Kathy Dempsey to the function, being hosted by the Mansfield Society.

Stressing that he had been promoting Hong Kong this week with a speech at New York's China Institute Mr Wiggham said: "I've been busy with my own programme. I've not been sitting around idle."

The incident has heightened suspicions that the delegation is viewed by Hong Kong as a rival effort to push Beijing's line on 1997.

Meanwhile, Mr Lu and the Preliminary Working Committee members were guests yesterday of a colourful grouping of Chinatown's business community.

At a tea party which often verged on a political rally, several guests stood up to congratulate China on putting an end to British colonial rule. One of them, 90-year-old Pang Huakuo, was greeted warmly by Mr Lu after he was introduced as a former Kuomintang general who, while fighting the Japanese in World War II, advocated taking Hong Kong by force from the British in 1945.

Another member of the audience, Luis Kotun, criticised British colonial rule, before going on to attack Martin Lee Chu-ming as a hypocrite who only defended Hong Kong people to get publicity.

Also in the audience was Paul Lai, the leader of the Tsung Tsin Tong, who is currently on multi-million-dollar bail awaiting trial on a host of gang-related charges including extortion and conspiracy to murder.

In his speech, Mr Lu stressed that Hong Kong would remain independent from China in 1997 with its own judiciary, law enforcement, and financial system. He said he had stressed to provincial chiefs in China the reasons Hong Kong was being given "special treatment" after 1997.

The delegation stages a promotional event at New York's Asia Society before leaving for Washington for the dinner and meetings with congressional leaders.

Editorial Faults Commissioner

HK2303043995 Hong Kong SOUTH CHINA
MORNING POST in English 23 Mar 95 p 18

[FBIS Transcribed Text] Hong Kong's man in Washington, the Commissioner for Economic and Trade Affairs, Barrie Wiggham, may not consider his failure to attend a dinner given by Lu Ping tonight to be a snub. But he cannot seriously expect the Director of the Hong Kong and Macao Affairs Office (HKMAO) to see it as anything else. With the notable exception of Mr Lu himself, government representatives rarely admit to snubbing the representatives of other governments. But the explanations offered are rarely as transparent as Mr Wiggham's. His excuse that the week's notice he was given was not enough to allow him to cancel an engagement with his wife and friends is unconvincing.

If the Government is determined to keep relations with Mr Lu in deep freeze, there is no shortage of excuses for doing so. Given Mr Lu's objections to a joint promotion in the United States and his rejection of the present administration's right to speak for its post-1997 successor, there are plenty of grounds for believing the Chinese side's invitation was little more than a token gesture. If Mr Lu were holding out the hand of friendship, he would not wait until he got to Washington. It is hardly a sign of an improving relationship when the most senior Chinese official in charge of Hong Kong affairs

will only meet relatively peripheral government figures at large receptions on neutral territory while refusing repeated invitations (which still stand) to meet the governor. In that case sending an even more junior official instead—in this case Mr Wiggham's publicity officer—is entirely in keeping with the spirit of the invitation.

But it does not serve Hong Kong's interests at this crucial late stage in the transition to compete for "face" with Mr Lu by trading snub for snub and insult for insult. Although the HKMAO Director is travelling in the company of members of the Preliminary Working Committee, Mr Wiggham is not being asked to give any formal briefings or break Chris Patten's increasingly flexible code for contacts with the "second stove." On the contrary, the official government position is that it is entirely Mr Wiggham's choice as the man on the spot and that it was a mature decision taken without consultation with Government House.

If so, it was the wrong decision and sent an unnecessarily hostile signal to China. It will not reassure people that Mr Wiggham's big salary and the cost of keeping him in Washington is money well spent.

XINHUA Reports on Joint Liaison Group Meeting

Representatives Sign Accords

OW2203180595 Beijing XINHUA in English 1436
GMT 22 Mar 95

[FBIS Transcribed Text] Hong Kong, March 22 (XINHUA)—Senior representatives of both sides of the Sino-British Joint Liaison Group (JLG) here today signed two minute accords, according to the Office of the Chinese Senior Representative of the JLG.

Under the accords, the two sides have agreed to award four new fixed telecommunications network service licenses for Hutchison Communications, New World Telephone, New T&T [as received] and Hong Kong Telephone. Each of the licenses has a valid term of 15 years.

Meanwhile, both sides have also agreed to award to a locally-registered company a contract to build and operate Route 3 Expressway in Hong Kong, which will straddle 1997.

The Chinese side affirms that the above-mentioned contract and licenses awarded shall continue to be valid after June 30, 1997 in accordance with the related

stipulations of the Basic Law of the Hong Kong Special Administrative Region (SAR), and shall be recognized and protected by the SAR.

Court Talks To Begin 24 Mar

OW2303090995 Beijing XINHUA in English 0832
GMT 23 Mar 95

[FBIS Transcribed Text] Hong Kong, March 23 (XINHUA)—The Sino-British Joint Liaison Group (JLG) announced here today that it will hold expert talks on the Court of Final Appeal in Hong Kong on March 24.

According to the announcement, the group of the Chinese experts is headed by Chen Zuo'er, representative of the Chinese team on the JLG while that of the British Experts is led by Alan Paul, representative of the British side on the JLG. They will be assisted by experts from the two sides.

Restrictions Sought on PRC Budget Involvement

HK2303042895 Hong Kong SOUTH CHINA
MORNING POST in English 23 Mar 95 p 6

[By Louis Won, Connie Law, Adela Ma, Catherine Ng and Fung Wai-kong]

[FBIS Transcribed Text] China should have no rights or decisionmaking powers in the 1997-98 budget, according to Democratic Party chairman Martin Lee Chu-ming. The party agreed that special arrangements were needed for the drafting of the British administration's last budget because it would affect the special administrative region (SAR) government.

"We think it is reasonable to set up an expert team to explain to China the drafting procedures of the budget. But this type of consultation should not include the right to veto or the power to make decisions, because the real power comes from the Hong Kong Government and its elected legislature," he said.

Financial Secretary Sir Hamish Macleod has proposed consulting the Chinese Government over the contents of the 1997-98 budget starting from April 1996. He also suggested setting up an expert team under the Sino-British Joint Liaison Group and briefing it on Hong Kong's public finances management.

Mr Lee said the principles of "one-country, two-systems" and "high degree of autonomy" must be strictly observed and mainland officials should not interfere in Hong Kong's budget formulation. He said China should not be representing the future SAR.

Mr Lee suggested the 1997-98 budget be formulated by the then financial secretary and the chief executive-designate. But his Legco colleague David Li Kwok-po said the proposed consultation would start too late.

He said Hong Kong's future was China, "yet the administration is waiting until its last budget to invite experts from the Chinese Government to observe the planning and preparation of a budget." He said: "Can this administration assure the people of Hong Kong that it has made every effort to enable the Chinese Government to fully understand the territory's public finances? I think not."

Liberal Party chairman Allen Lee Peng-fei said the expert team would only be useful if China and Britain managed to rebuild trust. He believed it should consist of mainly Hong Kong people. On the drafting of the 1997-98 budget, he proposed the Government consult China on a regular basis and allow the chief executive-designate to participate in its drafting, with the expert team acting as a think-tank.

Macao

Security Undersecretary To Visit China 26 Mar

*OW2303131495 Beijing XINHUA in English 1237
GMT 23 Mar 95*

[FBIS Transcribed Text] Macao, March 23 (XINHUA)—Macao's Undersecretary for Security, Brigadier Lages Ribeiro, will pay a seven-day visit to China's mainland from March 26 at the invitation of the Chinese Ministry of Public Security.

According to sources from the Macao government, during his stay in the mainland, Ribeiro is also going to meet with representatives of the Hong Kong and Macao Affairs Office, State Council, and to visit public security facilities in Beijing, Shanghai and Zhejiang province, East China.

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